THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 93, No. 10 February 6, 1954

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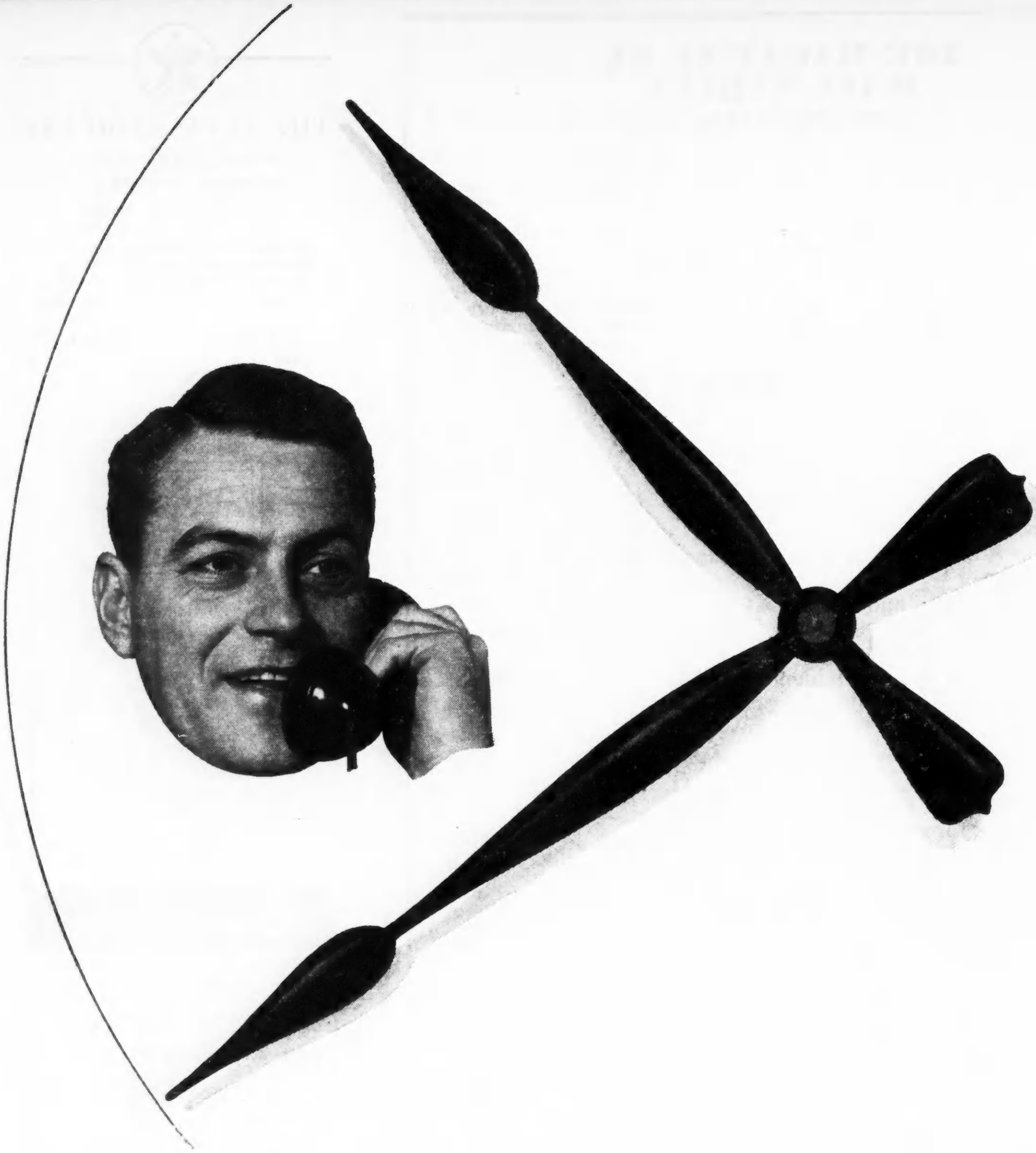
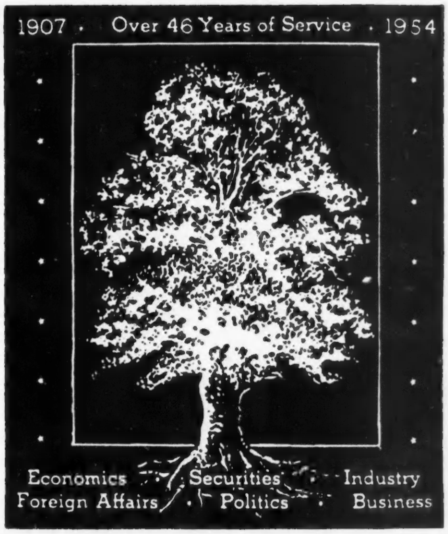
EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub



THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

ECONOMIC ADJUSTMENT NO CATASTROPHE . . . President Eisenhower's recommendation to Congress, according to which flexible farm price supports would replace the current rigid parity system is meeting with the expected strong opposition from the agricultural areas. Consequently, with an eye on the political stakes in the coming elections, Senators and Congressmen from both parties and who represent the more important farm states will undoubtedly exert every effort to defeat the Administration's plans.

This may be politically understandable but is nevertheless indefensible on economic grounds. The 90% parity system, no matter what could be said for it in former years, can now no longer be justified if an orderly transition from an inflated to a balanced economy is to be accomplished in time to be truly effective. All sections of the population must accept their share of the consequences of the adjustment and none can be favored at the expense of others.

A sound adjustment is not merely a question of a downward change in the business trend. Far more important, it involves a change in attitude which accepts the necessity of conforming with a new set of conditions in which past governmental benefits and economic favors to various elements in the population and which have had such a vital effect on the nation in the past twenty years can no longer be permitted to play a part. For if they are permitted to become permanently imbedded in our way of life, we must expect a profound change in our system of government. At the very least, it will be impossible to end the threat of inflation. At worst, it will result in the creation of large masses of people, dependent or semi-dependent on government relief in one form or another.

It is for this reason that the fate of the President's farm program is of such vital import to the entire nation. No doubt farmers would gain temporarily through maintenance of high and rigid price support levels but the long-term cost to the nation in terms of political and economic freedom would make this a very expensive victory, indeed, and ultimately not least of all to the farmers themselves.

THE RANDALL REPORT . . . After many months of prolonged and painstaking investigation, The President's Commission on Foreign Economic Policy (The Randall Report) has finally submitted its findings. Its basic recommendations are in support of a "trade not aid" policy. This has been the general aim of this Administration but as yet has not been expounded in detail, awaiting completion of the Report before proposals for legislative action could be laid before Congress. Judged by the reception in the press, and among business leaders, the outlook for incorporating major recommendations are not very bright, particularly in view of the fact that powerful

> *We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!*

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907—*"Over Forty-six Years of Service"*—1954

minority members of the Commission are in opposition, and division exists on details even among majority members.

The Commission advocates among other steps extension of the Reciprocal Trade Act for three years; liberalization of tariff charges, on a graduated scale of five percent per year for three years, rising to a total of fifteen percent; elimination, under specified conditions, of "buy American" requirements in purchases by the federal government; reduction of taxes and extension of guarantees on American investments abroad; ending of restrictions on government-financed ocean-freight favoring American ships; and, of especial importance at this time, abandonment of farm price supports where levels are higher than those of foreign products.

It has undoubtedly taken a great deal of courage to make such recommendations in the face of the inevitable opposition that will arise from individual groups who may feel their interests menaced. One may expect these groups to exert formidable pressure on Congress with the purpose of blocking any legislation that conforms with the policies advocated. For that reason, it is doubtful that major legislation in this general area will be produced. Several individual proposals, however, may have a better fate. Among these is the recommendation to extend guarantees on American investments abroad. This should have solid backing, not only in order to facilitate the export of capital and to offer better protection to American investors but as a genuinely constructive effort in aiding various nations abroad to improve their productive capacity.

The Randall Report has its controversial aspects but, upon one conclusion all Americans can agree. That is the emphasis laid on the desirability of foreign nations to exert every effort on their own behalf to strengthen their economies so far as possible, independently of what the United States can do for them. The $40 billion or more of economic aid we have extended the free world should be sufficient testimonial that we have already carried quite a full load of sacrifice. We need not apologize if we look to our own fences now that they too need some mending.

END THE CAPITAL GAINS TAX . . . The President's tax proposals, incorporated into his Budget Message, are welcome both as regards suggestions for relief of individuals and corporations. However, there was an important omission. No mention was made of the need of abolishing the capital gains tax. Yet, this pernicious tax has had a severely deterrent effect on the securities markets and, therefore, new financing in equities, on which industrial progress must depend, in the long run.

There is little doubt that the capital gains tax, through its peculiar operations, has discouraged investment in common stocks by making such issues less attractive. Consequently, business concerns, in need of working capital, have been forced to resort to the more expensive form of financing through bonds. Medium-sized concerns, in particular have been handicapped and have found difficulty, as a result, in keeping pace in the competitive race. And even the big ones have found it a drawback. As long as the capital market remains the prime source of new funds for the improvement of our national industrial plant, the need for freeing it from uneconomic restraints such as the capital gains tax remains pressing. For that reason, we urge Congress to rectify the ommission in the President's Message by introducing legislation which will abolish this tax. As stated in our last issue, this would result not only in strengthening our economy but, in the long run, produce far more revenue for the government. This is particularly vital in the present period of economic adjustment.

"PAY-AS-YOU-GO PLAN" IN STOCKS . . . The New York Stock Exchange has just launched its long-pending plan whereby investors may purchase stocks on a monthly payment basis. It is hoped thereby to attract larger numbers of the smaller investors who are unable to purchase securities, in any quantity, for cash.

We believe it a good thing to broaden the scope of the market to include the largest number of investors. However, while the Exchange has performed a useful service in making the purchase of securities more convenient, it has also assumed a new responsibility which should not be taken lightly. It is probable that the largest percentage of accounts opened up on the pay-as-you-go plan will be for new investors with little or no experience in the field of investment. It would be unwise to encourage these people to acquire any but the soundest stocks and brokerage houses handling this new type of business owe it to their new customers to act on this principle.

BUSINESS SENTIMENT . . . In an attempt to bolster confidence in the business outlook, a few self-appointed spokesmen for the Administration apparently have embarked on a campaign to counteract the adverse effects of recent publicity on the downturn in business. Some of this publicity has been construed as emanating from political sources in order to influence public opinion against the Administration. There is nothing new in this. All Administrations are sensitive to the implications of a business recession and either seek to minimize its importance, or admit it frankly but with the promise of an immediate change for the better.

Actually we see no reason for lesser government officials going on the defensive. The adjustment through which we are now passing has been in the making for several years. Much of it might have been averted had the previous Administration planned more carefully. In any case, attempts to influence business sentiment through doses of highly optimistic statements can boomerang if the public is led to expect more than it should.

The average American businessman is fairly hard-headed and runs his business on the basis of actual experience. All he wants is a government that knows how to handle its affairs efficiently in a time of adjustment, and this he now has. As long as the actions of government give him confidence, it will not be necessary to stimulate him by excessively optimistic statements regarding the outlook for our economy.

As I See It!

By E. D. KING

LONGING FOR PEACE

In the hope of inducing the Russians to finally conclude a peace treaty at the Four-Power Conference, the Austrians have made an offer which would cost them dearly in economic terms but which they think justified in order to regain their independence. For a small and poor country, such as Austria, the terms they are willing to offer are steep, indeed. What they would pay for freedom is not less than **$150 million** in a lump sum and relinquishment of their legitimate claims to the priceless assets of oil installations and shipping which have been in the hands of the Russians since the end of World War II.

Understandable as is the Austrian desire to remove the Russian shackle, it may be asked whether Austria is not throwing caution to the winds in offering so much. That they would gain a peace treaty if the terms were accepted and the Big Three agreed would perhaps give the illusion of freedom, but the substance would be lacking since the Russians still would have a foot in the Austrian door through continued ownership of the oil properties and, especially, vital shipping. Vienna is the natural rail hub of Europe, but it cannot regain its full functions as long as the Danube is not a free waterway and the Russians, together with their satellites, control the vital passages. Ownership of Austrian shipping on the Danube would give the Russians an added hold.

Eight years is surely a long time for a nation to wait for freedom and independence. That the Soviet government made this little country wait so long and is prepared to make it wait much longer, if necessary, is only one of the more glaring instances of present-day Russia's callousness. Nevertheless, the Austrians should ask themselves whether it would not be worth while for them to wait a little longer before irretrievably throwing away assets that they should keep for themselves, and, what is of much greater consequence, compromising a vital principle in national conduct.

"DIOGENES STILL HUNTING"

Kulkes in The Cleveland Plain Dealer

As hard as it may seem, and it is admittedly not easy for those who live under the grinding Red yoke, the Austrians should not allow emotion to overcome judgment, especially at this late stage. If they could attain true independence, through financial sacrifice, it would be a different matter, but as we have seen, the Russians will still be there although their presence may be concealed.

Austria is not the only case where discouragement over protracted difficulties may cause abandonment of fundamental national rights just at the moment when real relief may be forthcoming. France, though not under the heel of the invader as is Austria, is also thinking of seeking relief from growing burdens through appeasement. Indonesia and India are also weakening .

It is, indeed, worth paying a very high price for freedom and independence but this must be in the realm of spirit which commands that the sacrifice be equal to the reward. It must be in its own terms and not on the basis of tangible values. If the offering of gifts is intended as a means of escaping the ultimate burden of spiritual sacrifice, it must fail.

No doubt it is very easy for us who sit here in our comfort and strength and who have not felt the boot of the invader to point out the right road to this and that country. So it is in all humility that we offer a word of encouragement to hold on a bit longer and to take whatever comfort possible from the thought that resolute adherence to principle may now seem to postpone the day of freedom but in reality brings real freedom that much nearer.

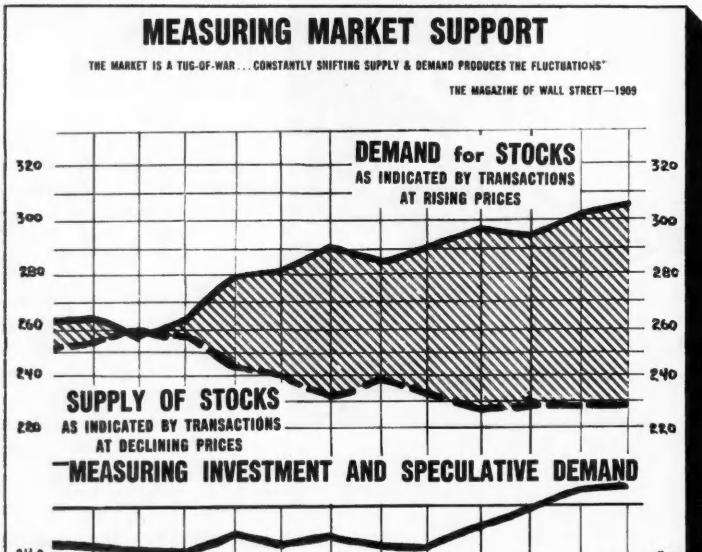
Traditional Pre-Spring Market in Progress

The general price movement was upward over the last fortnight, slowing in recent days. We continue to look for a highly selective, trading-swing market, which is not likely to go to extremes either way. Do not count on this phase being importantly extended, follow previously-advised conservative strategy, defer enlargement of over-all stock holdings.

By A. T. MILLER

On average, stock prices rose materially further over the last fortnight, extending the upswing from the lows of last September to four and a half months. The January performance was considerably better than that in December and November, reflecting to that extent re-invigoration of upward tendencies. However, the pace was slower than that of the first four to six weeks of the rise in late September and through October; and, on the same comparison, was accompanied by a substantially enlarged volume of trading. In a protracted trading-range upswing it is, of course, normal for the going to get tougher, as measured by percentage rise in the averages, and by an expansion in share turnover disproportionate to such rise. It is like climbing a mountain. The higher you go (prices), the more effort (volume) is required for further advance. Since early December, net percentage rise in both the industrial and rail averages has been modest.

Indications of market "tiring" on this rise will bear watching, although they are tentative up to this writing. For the industrial section, the best level was reached in the Tuesday trading session (January 26) last week, followed by churning at a slightly lower level in subsequent sessions up to this writing. That could be symptomatic of "tiring"; but there have been numerous other minor corrections on this rise heretofore, each short-lived. So it cannot be said that there is yet any positive evidence of significant deterioration in the market's technical position. Moreover, the rail average attained a new recovery high in a final-session rebound last week, after a small two-day dip.



New High For Utilities

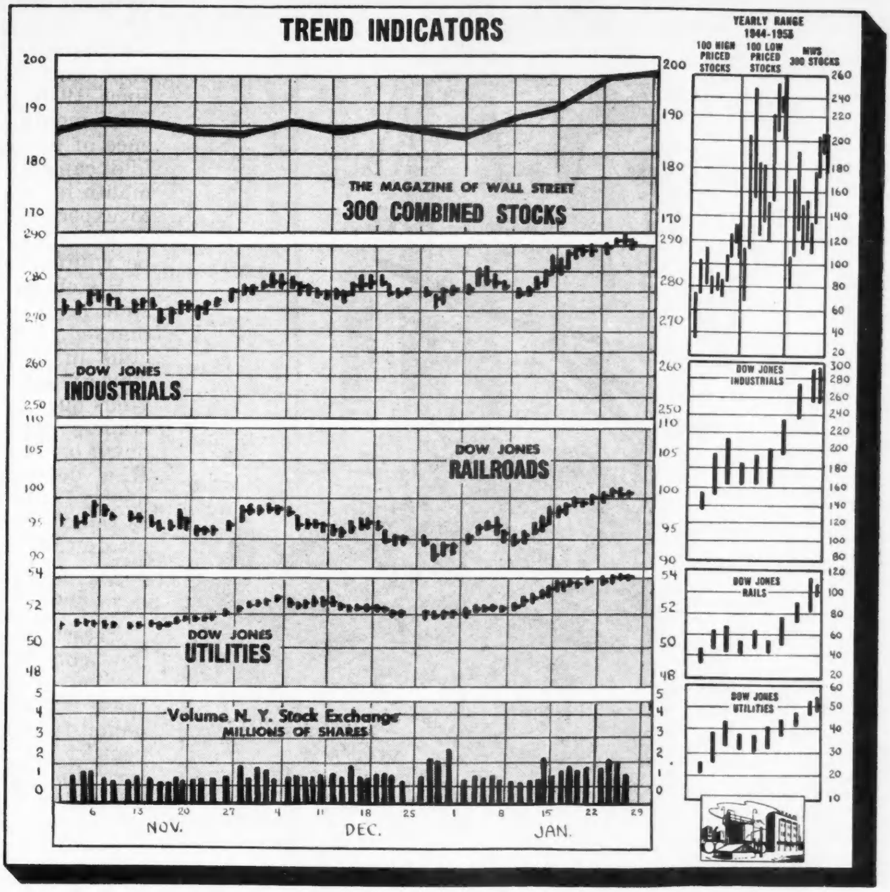
The Dow utility average edged up with notable persistence during most of January, finally going into new high ground, above the bull-market high of last March, late last week and holding within a hair of its best level through the rest of the week and up to our press deadline. (More representative indexes of public utilities had recorded new major highs earlier than last week).

For perspective, the Dow industrial average declined 38.3 points from its bull-market high of early-January, 1953, to the September low in roughly eight and a half months; and at last week's closing high had risen 37.3 points from the September low in four and a half months to within approximately one point, or a small fraction of 1%, of the prior high. Presumably there is some "hung-up" stock for sale around the old high; but not much, since the average did not spend much time in that area. In any event, the old high has little significance now as a reference point bearing on "general trend" to the limited extent that there is one in this market of stocks. Whether as a temporary stopping point on the downside or the start of a

upward trend of more than intermediate significance, the September low of 255.5 is the key reference point now.

Rails have made up only slightly more than half of the 22-point decline from the December, 1952, bull-market high to the low of last September. Our broad weekly index of 300 stocks has made up less than two-thirds of its prior decline of about 38 points or more than 17%. In short, we had what ranks as a minor bear market into September; and in the general run of stocks we have so far had an intermediate recovery which has not exceeded normal rule-of-thumb limits, as indicated by past experience.

Regardless of what the averages "indicate," there are bull-market patterns for many high-grade stable-dividend stocks, which are favored by money-rate trends and promise of tax credits for dividend income; and for growth stocks into which there is a fairly steady flow of institutional money, with buying figured on a dollar-averaged basis and no preoccupation with guessing what "the market" might do this week, month or year.



Broadly speaking, the market has been ignoring business recession for some time—although by no means ignoring worse-than-average prospects for individual lines of business and individual companies – while putting the emphasis on favorable financial—as distinct from economic—considerations. The latter include (1) prospect of generally well-maintained dividends, allowing for the supporting effect of EPT lapse on total corporate profits, present sub-normal average payout rates, augmented cash inflow in many cases from increased depreciation, and lessened needs to retain cash for plant or working capital; (2) the prospect of a firm to higher bond market, favoring better-grade stocks in a comparative-yield basis; (3) probability of adoption by Congress of the Administration-backed program of 5% to 15% tax credits for dividend income over the next three years. The implications of the latter have been detailed here, and elsewhere in our pages, previously.

In addition to the tangible factors cited, there is the intangible factor of confidence and "sentiment." You cannot measure it with a slide rule, nor project degrees of rise or fall in it with any great assurance –and yet it determines what investors are willing to pay for earnings and dividends. Through the stock market, investors in the aggregate are saying, now that the Administration's key programs have been formulated after long study and put before Congress –"We like what Ike is doing and trying to get done."

Reasonably representative industrial stocks sold at roughly 10 times indicated 1953 average earnings at the bull-market high. They are now around 9.7 times 1953 earnings and, on a tentative estimate, perhaps around 11 to 11.5 times lower 1954 earnings. Price-earnings ratios, at the highest market levels and at present, are far under those seen around the 1929, 1937 and 1946 bull-market highs, when they ranged from roughly 18.0 to 15.0. The relative valuation of dividends is equally conservative, as compared with the past. Average industrial-stock yield today exceeds average yield on top-grade corporate bonds by about 88%, compared with 91% at the stock market's low of last September; and 73% at the market high of January, 1953; whereas at the 1946 high, stocks yielded only some 40% more than bonds; at the 1937 high only some 16% more than bonds; and at the 1929 high the average high-grade bond yield exceeded stock yield by over 40%.

Figured on this perspective, confidence might put the market higher. However, we are comparing an investment-dominated market with more speculative markets of the past; and the difference goes far to account for more conservative valuations. We would not count on important further advance in the Dow industrial and rail averages, or in our composite weekly index. We continue to think in terms of a highly selective, trading-swing market, which is unlikely to go to any extreme in either direction. There is no change in policy or in previously detailed investment strategy.—Monday, February 1.

ECONOMIC ADJUSTMENT

—Through Change in Price Levels

By HOWARD WINGATE

As 1953 ended, business conditions had been declining slowly but steadily since about the middle of the year. A large number of industries were finding their shipments running well ahead of their sales volume, with a resulting decline in their "woodpile" of unfilled orders. They were also finding that it was no longer necessary to maintain their production at the torrid rates they had been hitting in the first half of 1953. They were, consequently, both reducing their employment somewhat and shortening the hours of work in their factories.

By the end of the year, most companies (although certainly not all) were facing a condition that used to be considered normal, but actually had not been present in any important degree in American industry since 1940 (with the exception of a few brief months in 1949), namely, the existence of idle capacity. With the amount of idle capacity increasing from month to month in late 1953, it would be reasonable to expect mounting pressure on the level of prices at which these companies would be willing to sell their output.

Historically, the next phase of the recession begun in mid-1953 would thus be marked by a gradual but cumulating decline in the general business price level. This article is concerned with the more obvious questions arising from these circumstances: How much pressure is bearing down on prices? Where does it originate? How does it vary from industry to industry? How much price decline is required to relieve the pressure and set business on an upward course again?

End of Inventory Accumulation

Pressures on the general price level are now coming from half a dozen areas of business conditions. The most important of these is a temporary reversal of business policy from inventory accumulation to inventory liquidation. In the middle of 1953, according to the Department of Commerce, manufacturing, wholesale and retail businesses were increasing their inventories at a rate of about $600 million per month. Since mid-year, however, businesses have become increasingly reluctant to add further to their stock of goods on the shelf, which already equaled about $80 billion. By late in the year, business inventories stopped rising, and at the end of the year they were going down at about a $100 million a month rate. Putting these two figures together, business demand for inventory purposes has declined by about $700 million a month in the past six months.

The unwillingness to buy for inventory is, obviously, a depressive influence on the price level. Sellers either have to wait until the prospective buyer has run his present stock so low that he has to buy more, or else they have to offer price concessions sufficiently attractive to convince the buyer he will lose by waiting longer. In 1949, inventory liquidation alone, by the pressure it imposed upon sellers, produced a drop of almost 10% in the wholesale price level.

This time, unlike 1949, the consequences of inventory liquidation are being augmented by a number of other important related factors. For the first time in the postwar period, short-term delivery is assured to American industry on virtually every basic commodity and semi-finished component it needs. The basic metals are perhaps the best illustration of what has happened to availability of materials over the past two years. When the government invoked the procedures of the Controlled Materials Plan (CMP) for the rationing of steel, copper and aluminum in

late 1951, some of the quotas were quite severe. Steel allotments to civilian industries ran as low as 60% of consumption in pre-Korea years. Copper use was cut even more severely, and aluminum was in such tight supply that it was contemplated, at one time in early 1952, to ban its use entirely in a wide range of non-essential applications. This so-called "sudden death" provision was never used, but aluminum allotments fell, at one point, well below 50% of normal consumption in many industries.

With the exception of a brief period in 1949, the supply of these vital materials has been either below or only precariously above the immediate demands of civilian production throughout the postwar period, and sellers obviously held the whip hand. Under those conditions, prices rose more or less steadily; buyers were glad to obtain their supply at almost any price.

In contrast, all three materials today are in abundant and in fact somewhat excessive supply. Immediate delivery is available on the whole range of semi-finished shapes in steel and aluminum. Copper producers, and the brass-mill products companies which fabricate copper into industrial products, are not clearing their output, and several brass mills have curtailed employment as sharply as the steel industry itself.

Because of this sudden abundance, buyers no longer feel required to place orders long in advance, or, in some industries, even to deal directly with the producer. If warehouses are amply stocked and anxious to sell, why carry inventory?

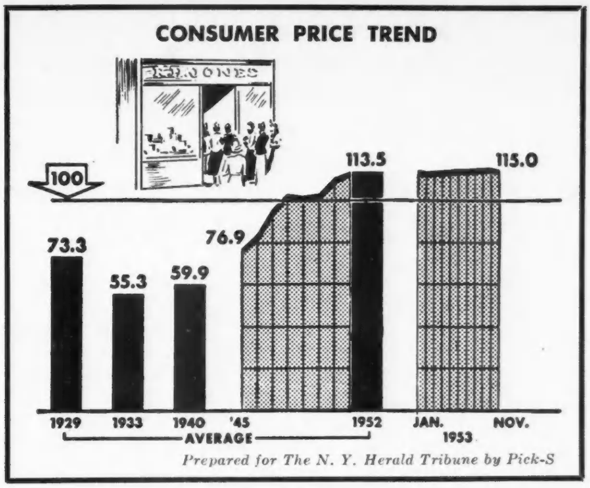
This "buyers' market" of abundance in virtually all lines is itself traceable to two basic changes that have developed over the postwar years, and culminated in early 1953. First is the obvious fact that capacity of American industry has climbed substantially since Korea. Steel capacity alone is up about one-third; aluminum capacity has practically doubled. But the list is much longer than that. Since Korea, expenditures on expansion and modernization of plant facilities has run consistently above $20 billion, reaching about $28 billion in 1953. Industry's capacity to supply consumer goods to the American family, and investment goods to American business itself, is now more than equal to demand: sellers are fighting for orders, and price competition is one weapon in the fight.

On the other side, buyers themselves are far less eager and humble than they were in earlier years of the boom. In almost all industries, the great backlogs built up during World War II have disappeared in the flood of goods pouring from American factories. The small incipient shortages of some goods —such as autos—that began to reappear shortly after the outbreak of the Korean war have likewise been obliterated by the 1953 boom, which left some of the biggest consumer markets—notably autos—in a semi-saturated condition. The consequence of this semi-saturation is price pressure.

At least for the time being, the defense goods market is also partly saturated. For defense products, the period between order and delivery is characteristically long—ranging up to several years for a large bomber plane. Production is already gradually gearing itself to the budget of fiscal 1955, which is well below the budgets of fiscal 1953 and 1954. Demands of defense industries are thus already weakening—backlogs of the transportation equipment industry (which produces most of the nation's armament) fell almost 25% in the last half of 1953.

Again, a natural result of the boom in plant and machinery that has built American capacity so rapidly in the past seven years is the decline in demand for capital goods which began in the third quarter of 1953. This decline is expected to continue throughout 1954 at a rate of about 5% per quarter, exerting increasing price pressure as operating rates in these industries subside.

Another subsidiary factor expected to cause pressure on prices in the coming year is the weakness of export markets for American goods and the relative strength of imports. Over the past eighteen months, the American merchandise export surplus (excluding federally aided shipments) has almost disappeared.



Prepared for The N. Y. Herald Tribune by Pick-S

Price Fluctuation in Major Products
(1947-49 = 100)

	Percent Change 1948 Peak to 1949 Trough	Percent Change 1949 Trough to 1951 Peak	Percent Change 1951 Peak to Current Price	Percent Change 1948 Peak to Current Price	Present Outlook
WHOLESALE PRICES					
FARM PRODUCTS	—19.0	+28.0	—20.4	—17.5	FIRMER
FOODS PROCESSED	—14.1	+20.1	— 8.1	— 5.1	FIRMER
CHEMICALS & PRODUCTS	—13.9	+22.4	— 4.8	+ 2.8	WEAK
FURN. & OTHER HOUSEHOLD DURABLES	— 3.2	+13.5	— 0.4	+ 9.3	WEAK
HIDES, SKINS & OTHER LEATHER PROD.	—13.1	+35.0	—23.9	—10.7	FIRMER
LUMBER & WOOD PRODUCTS	—13.1	+32.6	— 7.2	+ 6.9	WEAK
MACHINEY & MOTIVE PROD.	— 1.0	+14.0	+ 3.1	+16.4	WEAK
METALS & METAL PRODUCTS	— 8.4	+21.9	+ 3.1	+15.2	WEAK
NON-MET. MIN.	5.5	+ 9.0	+ 6.2	+22.0	WEAK
PULP, PAPER & ALL PROD.	— 7.4	+25.7	— 2.5	+13.4	WEAK
RUBBER & PROD.	— 7.9	+61.3	—19.7	+19.3	WEAK
TEXTILE PROD. & APPAREL	—12.2	+24.9	—17.0	— 9.0	FIRMER
RETAIL PRICES					
FOOD	—10.1	+16.1	......	+ 4.4	FIRMER
APPAREL	— 8.5	+10.2	— 0.7	0.1	FIRMER
HOUSE FURNISHINGS	— 7.1	+14.0	— 2.5	+ 3.3	WEAK

In fact, if non-goods transactions (such as transportation charges, tourist expenses, etc.) are included, the so-called dollar gap has disappeared in the last half of 1953, and America is paying a net balance to foreign countries; we are consuming more foreign goods and services than we have sold to foreign countries. This is a traditionally deflationary influence on prices.

Consumer Debt as a Factor

Finally, in the course of building up its enormous supplies of consumer goods and capital goods in the last seven years, the American economy has made very liberal use of debt instruments. Since the end of the war, consumer debt has increased fivefold: corporate long-term debt has about doubled. A slowdown in the rate of incurrence of debt, which now seems likely in 1954 both for corporations and individuals (although not for governments), means an end of one further support for the current price level.

These are the areas in which pressures on prices are now originating. Different industries will, of course, feel the pressure in different degree. For one thing, a significant degree of price deflation has already occurred in a number of industries, and further declines are therefore not likely to be severe. In the textile industry, for example, wholesale prices are now below their 1948 peak, and almost depressed to their recession trough of 1949. Farm prices, too, are almost as low as they were in the most depressed month of the 1949 recession. Much the same condition prevails in the leather products industry.

Particularly in the case of raw materials, prices are now historically low relative to every other variable by which they can be measured: physical demand, income available for their purchase, or the value of the finished goods into the production of which they enter as a raw material. In certain exceptional cases, the raw material price has collapsed to a level where producers are able to utilize only their lowest-cost capacity; in other words, supply has begun to dry up under the impact of falling prices.

Usually the prices of raw materials fall severely during a recession. In 1954, raw materials prices will probably fare better than finished goods. For example, it seems likely that by mid-summer the ratio of finished goods prices in the rubber industry to raw rubber prices will be considerably lower than it is now. The same might be said of the wood products industry, and of products (such as lead storage batteries) incorporating the basic nonferrous metals other than copper and aluminum.

How Price Adjustments Will Help

Granted that a certain amount of price adjustment lies ahead in 1954, would it help to stabilize business conditions? The answer to this question is a strong affirmative. The reasons are fourfold.

In the first place, there is already considerable evidence that buyers in certain lines are holding up, waiting for a better price. This is implicit in the fact that manufacturers' inventories are declining, and that for months the decline has been pronouncedly centered in their inventories of purchased materials and components. They are allowing their stocks to run down, in the hope of replacing them at less than the present price. A decline in prices would thus serve to bring them back in the market, and end inventory liquidation, which is responsible for much of the present price pressure. An end of inventory liquidation would mark an immediate, if moderate, recovery in the rate of industrial buying.

Secondly, one of the reasons the American export market has shrunk is that the selling price of domestic producers in many cases are higher than the prices of producers in foreign countries. This also accounts for the rising tide of imports into this country from abroad, and the current heated discussion on American tariff policy. Even a moderate decline in the U. S. price level would act to inhibit imports, by making U. S. goods more attractive to the domestic market, and to increase U. S. exports by making our goods more attractive in the world market. Both of these results would, of course, add strength to the American production outlook.

Thirdly, it should be borne in mind that American consumers now hold the largest dollar volume of liquid assets in their history. As the consumer price level goes down, the real buying power stored in these assets rises commensurately. For each 2% drop in the cost of living, the consumer sector as a whole gains about $7 billion in purchasing power. A 5% drop would be equivalent of a tax-free bonus of one month's pay to every family in the country! As the price level goes down, therefore, it provides an increasing stimulus to consumer markets, which should in turn arrest the price decline. Given the condition of liquid assets in the consumer sector, a decline of 5% in the consumer price level in 1954 would serve materially to stabilize conditions in consumer industries, and build the basis for a new general advance.

Finally, the consumer is not alone in holding liquid assets. U. S. corporations (excluding banks and insurance companies) hold about $50 billion in cash and government securities. Each 2% drop in the price level, while it would probably be accompanied by a decline in operating profits, would yield corporations a bonus in the purchasing power of their liquid holdings amounting to about $1 billion. In other words, corporations are, today, hedged against a price drop as they have never been before. It would seem highly probable that any considerable fall in the prices of the materials, tools and construction work which corporations buy would uncover new demand originating in corporate holdings of cash and governments.

How Much Adjustment Ahead?

Under present conditions, it is highly unlikely that the U. S. price level will get more than a moderate shakeout in 1954. Nothing like the catastrophic declines in prices that occurred after other world wars is worth speculating about. Here are some of the likely changes, and what they would mean for business conditions:

Retail prices: a moderate drop in food prices, and a somewhat sharper drop in household goods prices and autos, the latter reflecting, chiefly, not a decline in manufacturers' costs but a squeeze on distributors' margins. The level of consumer debt, and the probable sagging of the credit market, rule out price firmness. But basic materials costs and wage rates in these industries will not go down. In other basic retail goods—apparel, housing, and other services—little change is likely. The cost of living is *not* going through the floor: a (*Please turn to page* 589)

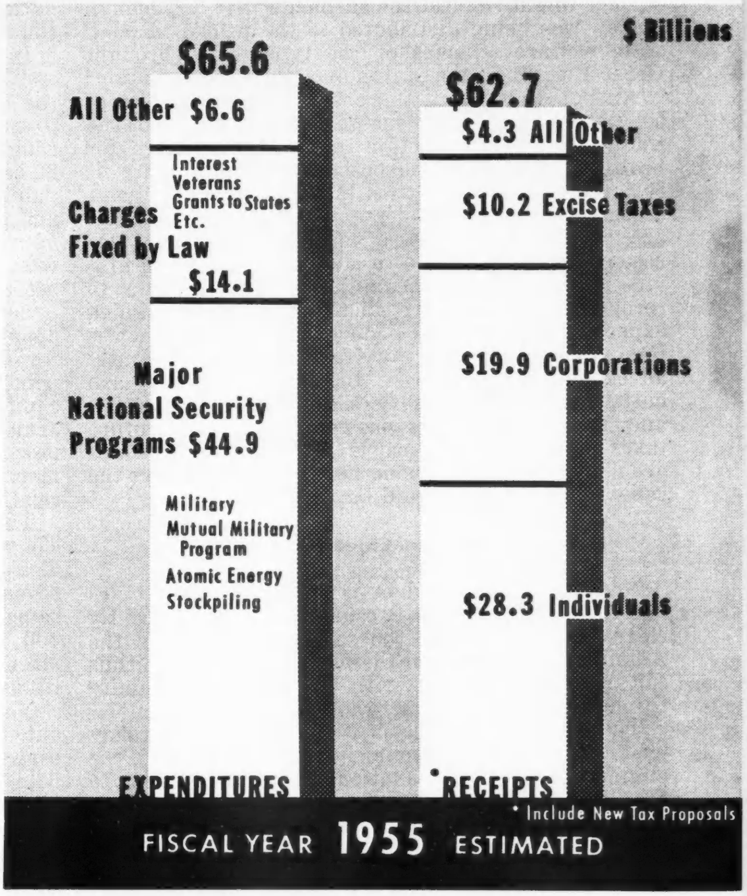
★ ★ ★

Realistic Appraisal of

The President's Program

By HAROLD DuBOIS

The FEDERAL BUDGET



(Editor's Note: In the preceding issue, we analyzed the President's State of the Union Message. In this issue, we present important features of the Budget Message and the Economic Report. Taken together, these three Messages outline the major economic policies of the Administration. The President's legislative program is a vast undertaking but its success depends on effective support from Congress.)

The counter-revolutionary Budget of the Eisenhower Administration, marking the close of a twenty-year era and the beginning of a new one, has, so far, attracted attention chiefly to its facts and figures rather than to its more fundamental implications. It is counter-revolutionary in sharp contrast to the Budgets of the Franklin D. Roosevelt Administration which, in their time, were definitely recognized as spectacularly revolutionary! They, too, marked the end of an era.

For the first time in all American history, the Roosevelt Budgets were dictated not by the needs of the Government for its operation and the ability of the taxed community to pay without serious interference with peacetime affairs. They were made vehicles, indeed weapons, to alter a long established theory of society and of government. Peacetime taxes were levied with the avowed purpose of re-arranging the economic structure of society and of punishing individuals and their corporate creatures for seeking to accomplish ends which the new order deemed to be the sole responsibility of the Government.

The Eisenhower counter-revolutionary Budget represents an effort to restore in some slight degree the previous independence of the people as apart from their Government, and to restore a system which conceives government to be the servant of the people (as planned by the founders of the Republic) and not the people the servant of the Government.

It is encouraging to millions of the American nation to see a Budget which leaves aside stern lessons in sociology and seeks to conduct the enormous business of the Government on a system at least akin to the principles of sound management.

The Eisenhower Administration had been operating but six months under its own fiscal management when this Budget was submitted because the fiscal year starts on July. In the first half of 1953 it had been necessary to proceed on the fiscal groundwork laid by the Roosevelt-Truman regime. The precise working of this counter-revolution, this abrupt reversal in fiscal policy, is emphasized by the following figures: the new Budget calls for $65,570 million for the fiscal year beginning next July 1. This is some $5.3 billion under the previous year. But the important fact is that it is $12.3 billion below the expenditures originally budgeted by the Truman Administration. In a word, instead of maintaining the upward climb of spending as the old regime had done, the new Budget starts a slow but, it is hoped, steady decline!

Moreover, at the end of the fiscal year, the Treasury will show, on a cash basis, a surplus of some $115 million. Again, the idea of complete reversal is

emphasized. Under the previous regime it was considered almost fiscal treason to show a surplus, as a surplus might suggest the suspicion that not enough money was being distributed to the people through state welfare schemes of the type which brought Great Britain to the status of a third class nation!

And on that point, there has been no neglect of the interests of large masses of the people. True there is a direct reduction in the money outgo for health and welfare purposes. The new figure is $1.8 billion compared with last year's $1.9 billion—a mere $100 million—but the major avenues of relief are arranged in a more equitable manner. It is recommended that the tax laws be amended to provide relief to heads of families with dependents, to recognize a variety of medical, child care and allied expenses, making them deductible. This approach is in sharp contrast to the welfare schemes previously advocated and practiced. Instead of costing cash outlays from the Treasury, these measures of assistance merely cost a very problematical loss in future taxes—problematical because people in these groups are not in any event among heavy taxpayers. Yet the relief thus granted would be very real.

Taxes the Chief Feature

Necessarily, the Budget is concerned with taxes and tax policy and the President made it eminently clear that he believes the savings realized by the Administration, even in the brief term of office thus far, should be shared with the entire community through measures of tax relief.

The House Committee on Ways and Means already has acted on the recommendation looking to the elimination of double taxation of dividends—much to the dislike of organized labor—and upon a number of other changes, and it is fairly certain that these reforms will reach ultimate enactment. On the fundamental change in the theory of taxation the President, in his Budget message said of his recommendations:

"They will substantially reduce the more glaring inequities, thereby helping vast numbers of our people in their individual tax burdens. *They will reduce the more serious restraints on production and economic growth. They will promote investment which provides new and better methods of production and creates additional payrolls and more jobs!*"

That final sentence might well be selected as embodying the whole theory of taxation in relation to national economy which, in this Budget, marks the counter-revolution!

In such times as these—described by the President as "a period of uneasy peace"—it was inevitable that the largest share of the Budget should be devoted to national defense. The Budget dollar is divided roughly to give 68 cents for defense purposes with 22 cents for immutable costs such as interest on the public debt, payments to veterans, grants to States and such fixed charges. Incidentally, that interest figure alone now stands at $6.8 billion, about half what the entire *principal of the debt* was at the beginning of the Roosevelt-Truman reign.

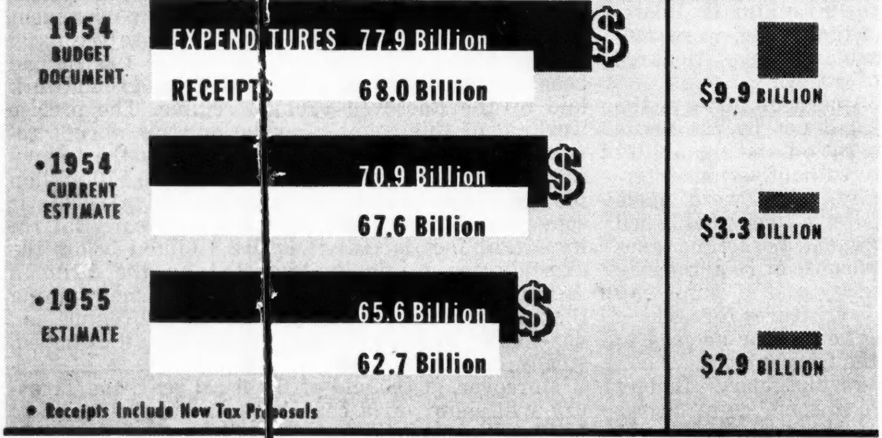
Some misgivings have been expressed, especially among Democratic critics, that the amounts called for for defense are inadequate. But the President points out that the nation has already made the great capital investment required to build up a tremendous armed establishment with only maintenance costs now burdening us. Emphasis has moved from the more conventional implements of warfare to the relatively new wonders arising from an atomic age.

Thus, the Navy is cut from 1,124 vessels including 474 warships to 1,078 vessels including 402 warships. The Army drops from nineteen active divisions to seventeen while the Marine Corps is held about the same. Total forces are cut from 3,400,000 to 3,300,000 by next June with a further drop to 3,000,000 strength a year later. In contrast the Air Force is lifted from 955,000 to 970,000 personnel.

Now in this connection, it is interesting to point out that recommendations are that foreign aid, especially for the upbuilding of armed forces, be lifted from $4.2 billion for the current year to $4.275 billion for the next fiscal year. Conflicting reports come from Europe about the value and quality of the European defense armies but probably the preponderating opinion is that they are improving. Throughout much of European history it was not unusual to hire mercenary armies, highly trained and well armed. It is not especially straining the point to say that while we do not like to use the term "mercenary," the United States today is in effect following this ancient practice by arming European troops, with the additional important factor that these troops are, at the same time, fighting to preserve their own interests. And meantime, American troops, which otherwise might have been armed and sent abroad at far greater expense, are being demobilized and returned to productive life.

As the active agent in bringing either the atomic or the hydrogen bomb into play would be the Air Force, the Budget calls for the substantial strengthening of this branch. The present strength of 115 wings is to be raised at once to 120 wings and to 137 wings in three years.

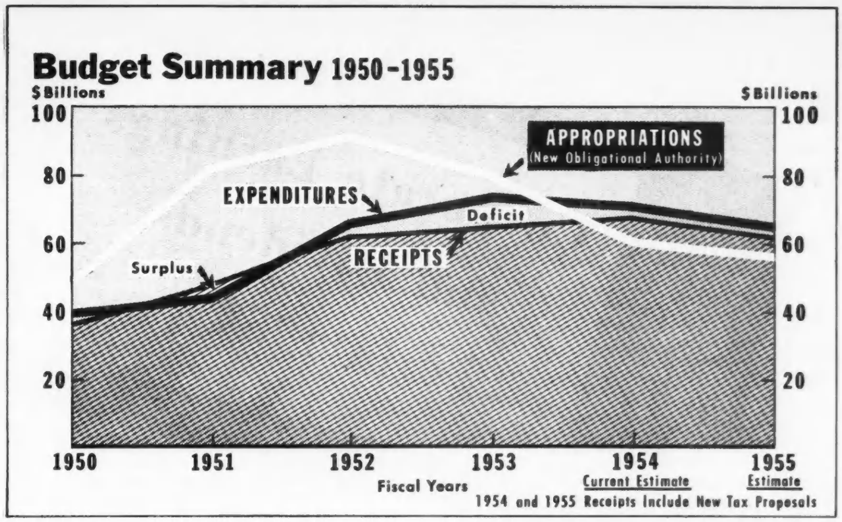
It may be of interest to realize that the term 'wings' in relation to the Air Force has nothing to do with wings in the sense



of aviation. The term goes all the way back to Caesar's legions—the *alae*, the wings, then usually applied to cavalry. A wing varies widely depending upon the type of aircraft comprising it. A bomber wing will number fewer than a fighter wing. The difference may range from 40 or 50 to 140 planes to a wing. The President's plans call for increasing the present total strength of 33,000 planes in the Army, Navy, Marine Corps and Air Force, one third of them jets, to 40,000 planes, one half jets under a three-year program.

These expressed plans inevitably have resulted in great optimism among manufacturers of aircraft, parts and everything attendant. In contrast, there has been a tendency toward pessimism in industries concerned primarily with tanks, armored cars and the more conventional munitions of war. While the Budget only makes recommendations, it seems likely that Congress will follow along fairly closely. Although such vast new heavy contracts as were incident to the Korean adventure are not to be expected, the item of maintenance of the older arms alone will mean no small volume of business.

Of great importance, signalizing the turn from the old to the new types of warfare, is the item of $1.4 billion for research in new types of weapons. The request for atomic energy development is for $2.4 billion compared with $2.2 billion for the current year. In both these fields, specific atomic development and general research, the President made it clear that it will be his policy to have an increasing amount of the work carried on under contract with private corporations. To be sure, the basic vast enterprises at Oak Ridge, Tanford, Portsmouth in Ohio and in South Carolina and Georgia must remain, for security reasons, under strict governmental control. But already a substantial amount of sub-contracting has been undertaken by private business and, under the President's policy, much more will follow. With the atomic-powered submarine Nautilus launched at almost the same time the Budget was being presented, it is announced that another is to be contracted for in the new fiscal year in addition to the "Sea Wolf" already on the ways.



Corporate Taxes

In the field of corporation taxation, the Budget proposed something of an innovation described as a pay-as-you-go plan. It is somewhat reminiscent of the Mills Plan which the Treasury has been following for years and which provided for anticipated tax payments. This new scheme would go even further and provide that corporations would pay half their tax liability in September and December of the year for which they were being taxed with the remaining half in March and June. For several years past, the Treasury has often been in difficulties in the latter half of the year because of anticipated Mills Plan payments. Presumably, this new plan would remedy and reverse the position. How corporations will look upon this remains to develop in Congress. Certainly, at the beginning, they would have to raise funds for a larger proportion of taxes.

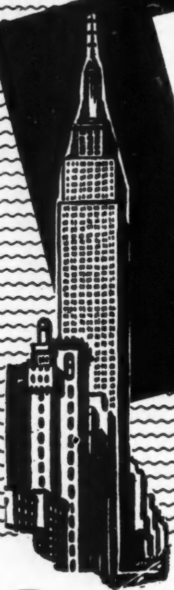
Tax cuts on January 1 cost the Treasury about $5 billion and this was responsible for the deficit of some $2.9 billion, incidentally billions less than would have been obtained had the Truman system of deficit financing continued. To follow the plan of permitting all taxpayers to participate in the savings the Government has thus far effected by permitting expiration and outright reduction of taxes, it became necessary to seek a renewal of taxes, due to expire April 1, in order to bring in some $3 billion.

As to excise taxes, Congress is much divided but it seems likely that losses to the Treasury incurred by reductions on some items will be about made up on others.

Although there has been much criticism of the practice in the recent past, the President favors continuation of rapid amortization of plant and equipment for tax purposes. Originally, this plan was adopted as a war emergency; the President seems to think it is calculated to benefit industry and the country generally in any period as likely to encourage extension and improvement, incidentally increasing employment and providing orders for materials. Whether or not the Congress will approve the Ways and Means Committee favorable actions, based on the Budget recommendations, remains to be seen.

Senator Byrd of Virginia already has said that the Budget itself proves that an increase in the debt limit of $275 billion is unnecessary because it shows that expenditures can be pared. And Chairman Taber of the House Committee on Appropriations has asserted that an additional $3 billion can be cut from the Budget as submitted. Nevertheless, the President, on recommendation of Secretary of the Treasury Humphrey, urged the raising of the debt limit. The Secretary has explained that while, on paper, the Treasury may be in balance, a delay in mails over a weekend at critical periods, could throw calculations out. It has been suggested that Congress might devise some scheme whereby the Treasury could exceed the legal debt limit for a day or a week to meet an instant emergency yet with no definite continuing increase in that limit. Such a plan would provide (*Please turn to page* 590)

Corporate Earnings and Dividends in 1954



By GEORGE W. MATHIS

Factors contributing to the prospective rate of corporate profits and dividends are almost evenly divided between those of a constructive and those of an adverse character. This fact is generally lost sight of in the general expectation of a decline in business for 1954, variously estimated at from 5% to 10%.

It is erroneously believed that because the general volume of business in 1954 may be lower than in 1953, all the elements affecting corporate profits are equally negative. The fact of the matter is that while some factors may tend to reduce profits, these tendencies will be offset to some extent by newer factors which are commencing to exert their influence.

Favorable vs. Unfavorable Factors

Listing the two groups of opposing factors, they can be distinguished as follows:

Adverse Factors—(1) *Prospects for an uneven decline in sa'es,* with considerable variations between industries. For example, gross revenues from steel production is likely to be somewhat lower than last year. On the other hand, indications are that sales of petroleum products will hold up to last year's levels and may even exceed them by a fair margin. Sales of cars and trucks are expected to recede moderately which seems also to be true of machine tools, but an increase seems in sight for important branches of the electrical and electronics industry. These contrasting aspects among individual industries could be expanded indefinitely.

(2) *Narrowing of profit margin* is indicated where sales volume prospects are less favorable and where price levels may be adjusted downward, or a combination of the two. Where rigid wage costs exist, profit margins may be squeezed though certain offsetting factors must be considered. These will be discussed later. In the third quarter of 1953, profit margins, on average, were already declining, and while there are not as yet sufficient reports available on fourth quarter earnings to justify a general conclusion to indicate the precise dimensions of the trend, it is at least clear that a reversal of the downward turn is not in sight.

(3) *Inventory adjustments.* Fluctuations in inventory valuations have had a substantial effect on profit margins in recent years especially. Two base factors will affect inventory values this year: the trend of prices (discussed in a separate article in this issue), and the actual physical volume of sales. Since a general lowering of sales volume is indicated, reductions in inventories will follow, as, indeed, has been the case for some months. Even though prices may be somewhat lower for some products, inventory losses may not be proportionate since high-cost materials have already been liquidated to a large extent in recent years.

The attached chart shows that inventory losses in the period mid-1951 to mid-1953 which succeeded the period of high inventory profits in 1950-1951, have gradually come under control and that the relative period of stability in price last year has been reducing the degree of influence on corporate profits which inventories have had in the post-Korean period. However, while the above is generally true, some industries face special problems with regard to the price outlook. For example, farm products which declined 3.3% in August from the preceding January have by now dropped 5.2%. This may require an adjustment in inventory valuation of food processors and related industries. Textile values dropped 1.3% in the January-August period but are now off by 3%. Metal products which showed a gain of 4.3% in the earlier period have now lost part of this gain with a contrasting figure of only 2.9%. On the other hand, some prices such as for apparel and shoes have been strengthening in recent months. The comparative narrowness of the above changes, however, indicates that insofar as inventory values are concerned, earnings will not be affected much one way or the other in coming months, except among individual companies which have an unbalanced inventory position to contend with at a time of rising competition.

Constructive Factors—(1) One of the principal offsetting elements operating against the effect of lower sales volume is the *improved control* which management will have this year with respect to

labor costs. Expensive over-time operations are being reduced steadily. For example, the president of the Republic Steel Company has just stated that ending of peak operations has permitted monthly savings of $1.2 million in cancellation of over-time pay. Furthermore, with less pressure for immediate production, casual labor and other relatively inefficient workers can be dispensed with, leading to more economic operations and at less cost.

(2) *Closing or reduction of operations in obsolete or uneconomic plants.* By concentrating production in new plants built in recent years and through utilization of new labor-saving and other efficient equipment, the percentage of "lost-time" operations can be reduced. Similar effects should be witnessed in the larger retail establishments which have steadily been improving their physical layout from the standpoint of economy of operations. Profit margins are normally considerably higher through production in high-efficiency plants than through production in older and less economic plants. For that reason, it is not likely, at least so far as the larger and more progressive companies are concerned, that profit margins will decline in anything like the percentage of the prospective decline in sales. Certainly, the premium for efficient operation should be substantial.

(3) *Cushioning Effects of Tax Relief.* From the practical standpoint of the relation between sales and profit margins during the coming year, the ending of the excess profits tax is of great importance. Where companies have been in the highest income-tax brackets, the "cushioning" effect of the disappearance of EPT from the liability side of earnings can be very substantial. In other words, companies especially favored by the end of EPT will find that the total effect of a decline in pre-tax earnings will be much reduced. On the other hand, where companies have had no excess profits tax liabilities or very small ones, the cushioning effect will be negligible. This means that in such cases, any decline in pre-tax profits will be shown up in earnings without any offset. Railroads, for example, will receive no benefit, except in a very few cases, from the elimination of the excess profits tax. Any reduction in gross for this group will show up in more or less equivalent declines in net.

Over-all Effect on Dividends

The accompanying table shows how companies in various income-tax brackets would fare following the lapse of EPT at various levels of decline in pre-tax earnings. It will be seen that the higher the tax liability in 1953, the greater the degree of benefit. It is even possible—(see third column of table) that for companies in the 65-70% bracket, pre-tax earnings could decline by as much as 25% and yet, net could increase as much as 20%. A few examples of companies especially benefited through the lapse of EPT from the standpoint of its cushioning effects are: General Electric, General Motors, Goodrich Tire, Reynolds Tobacco, Anchor Hocking Glass, Lily Tulip and Thompson Products.

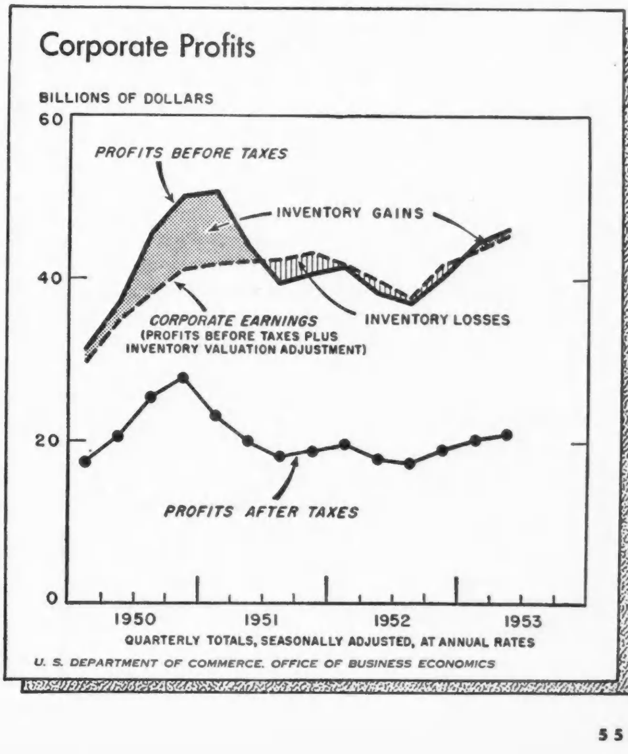
A secondary effect of the ending of EPT is that companies will no longer choose to spend lavishly since such deductions under the general heading of expense will no longer be profitable from the tax standpoint. This would have the effect of stimulating much more interest in economy of operations by corporate executives than has been the case in recent years.

Range of Benefits to Corporate Profits From EPT Lapse

	PERCENT CHANGE IN 1954 NET INCOME		
With 1953 Tax Rate of:	If Pretax Net Falls 50%	If Pretax Net Falls 40%	If Pretax Net Falls 25%
70%	—20.0	— 4.0	+20.0
69	—22.6	— 7.1	+16.1
68	—25.0	—10.0	+12.5
67	—27.3	—12.7	+ 9.1
66	—29.4	—15.3	+ 5.9
65	—31.4	—17.7	+ 2.9
64	—33.3	—20.0	0.0
63	—35.1	—22.2	— 2.7
62	—36.8	—24.2	— 5.3
61	—38.5	—26.2	— 7.7
60	—40.0	—28.0	—10.0
59	—41.5	—29.8	—12.2
58	—42.9	—31.4	—14.3
57	—44.2	—33.0	—16.3
56	—45.5	—34.5	—18.2
55	—46.7	—36.0	—20.0
54	—47.8	—37.4	—21.7
53	—48.9	—38.7	—23.4
52	—50.0	—40.0	—25.0

NOTE: This table shows the cushioning effects of the ending of the excess profits tax on corporate earnings at various rates of decline in pre-tax income. The higher the total tax rate in 1953, including EPT, the greater the cushioning effect in the event of a decline in pre-tax earnings.

We have seen from the above that the various elements entering into the corporate earnings picture for 1954 are, for all practical purposes, in a sort of tug-of-war, working in different directions simultaneously. For that reason, only a general conclusion as to the outlook for corporate profits would be valid, allowing for many exceptions due to special circumstances affecting specific industries and companies. However, the con- (*Please turn to page* 589)



PUNCTURING NATIONAL DEBT CEILING

By "VERITAS"

RECESSION talk by Senator Paul Douglas of Illinois, and by various groups of economists, is being carefully recorded and cross-indexed at headquarters of the bigger unions and will be a part of the argument supporting demands for a guaranted annual wage.

> ### WASHINGTON SEES
>
> A program of public works, not of Ickesian measurement but big, could be the key to a rounded-out economy under a budget which Capitol Hill has labeled with tags all the way from "realistically frugal" to "wolf-at-the-door."
>
> The President has approved a start in the District of Columbia. Congress is willing to go along, comments by leaders of both sides indicate.
>
> Except for scattered examples, federal construction of office space, courthouses, post offices, bridges, and the like has been standing still since Pearl Harbor day. A program was in readiness then; it combined several years' accumulation. Now the needs of an additional dozen years have piled on. Replacement and expansions, plus procurement and management of federally-occupied property, have grown to the point that the Truman Administration was forced to set up new a department to handle the matter—General Services Administration.
>
> A public works program means jobs, and the White House is becoming increasingly conscious of unemployment; it means aid to the construction industry and its suppliers. It is a type of operation that has a long "carry"; its expense accordingly can be spread over years. And it isn't boondoggling or "made work." It brings back memories of Harold Ickes' PWA, but Ike has already shown he doesn't regard democratic conception is necessarily original sin.

The subject now is being mentioned only about enough to keep it alive. Unemployment data are being gathered, however, and the campaign will be well organized when it breaks. The annual wage plan offered ALCOA in 1953 is the standard base: 52 weekly paychecks a year, computed on agreed wages for a 30-hour week, to be paid out of a fund created by payroll 10-cent an hour employer donations.

PUNCTURE of the national debt ceiling is close to becoming a fact, whether it is brought about by a legislative permissive, as President Eisenhower asks, or is occasioned by piling up bills that must someday be paid and which, by their very existence, make the debt higher than it is officially recorded as being. Senator Byrd still says the way to curb spending is to make it impossible for public agencies to disburse funds. Holding the line at this point—as a matter of bookkeeping, although it is not in fact actually held. But the Virginia senator is not working hard on his project, gives the impression he may eventually yield.

HARD FACTS on the national debt seems certain to triumph over theories that stalling the inevitable is sound financing, anti-Byrd congressmen point out. They say the original plan to call congress back into session last Fall would have been preferable to the devices used to stay within the statutory limits: slowing down of payments to defense contractors, who haven't kicked about it but were legally entitled to earlier payment, and transfer of some crop loan paper to banks with a tacit agreement that they'll re-transfer when the money is at hand. Payments directly out of Treasury general funds have been made to avoid issuing new obligations. These have reduced the balance to $3.5 billions.

CABINET members are coming off well in their year-opening official visits to Capitol Hill. James P. Mitchell, "freshman," member cleared the committee hurdle and had no trouble with the senate, when the matter of his confirmation was reached. The new Secretary of Labor said the Taft-Hartley Act is basically good, can be improved; but he gave no ground merely to be pleasant to the senators.

As We Go To Press

Maybe it will work out, and maybe it will not: the idea, that is, that the President's middle-of-the-road messages to congress will win bi-partisan support when transplanted into proposed bills. If all congressmen considering themselves neither to the right nor to the left of the middle actually are in that legislative zone, the President would have easy sailing; his program would breeze through.

The labor message was obviously designed to attract the "middle men"--but they split in three directions: some professional laborites declared the law is even more restrictive than before; some said it coddled labor and said it didn't carry out the promise of strengthening the basic act; and some took the practical viewpoint that it's the only program of labor-management that stands a chance of enactment. Here's a case where the opposite poles will come together, yield something, take something. The amendments will be a re-phrasing, in legal language of the message. Middle-of-the-road will win.

There is no middle-of-the-road on the farm program. A flexible price support program and a rigid base cannot be merged. It's one, or the other. If it is against public policy and military common sense to make Russians strong and happy with cheap United States butter and other food commodities (the same goes for Moscow's satellites), it's clear the existing surplus cannot be moved out of the channels of competitive trade here. Here the problem of finding middle-of-the-roaders is not one of political alignments but of economic viewpoints. The farm belt wants the status quo, or, if there is any change, a law which will give the farmer a better financial deal today and tomorrow, not next month or next year.

There's wisdom in the apparent strategy or soft-pedaling the party angle and de-emphasizing the class struggles, all in the interest of promoting a program the man-in-the-street can consider his own. If the next 10 months show legislative progress, the GOP can go to the polls with the record which will speak for itself, be interpreted in terms of success or failure. While Ike should, and will, continue his appeal along lines already indicated, he's not likely to forget that congressmen do not live by altruism alone. Political motivation is an ingredient of Capitol Hill production.

Probably the fairest way to reckon whether President Eisenhower has a good legislative batting record in his first year in office is to examine the items which were labeled "unfinished business" when the lawmakers met Jan. 6. There is a wide difference between the planks in the 1952 platform and the specific actions requested. The Eisenhower campaign was geared to a balanced budget, reduced expenditures, end of the War in Korea, debt cutting--things that could not possibly be brought about in a single year of a four-year term and weren't promised on that basis, or, as in the case of Korea, which could not possibly be timed to day or even year.

The President asked congress to economize and it did; to work toward a balanced cash budget, and it did. He handled the Korean situation himself. Taxes already had been laid and for the first half of his initial year were being collected under a Revenue Act he inherited. He had asked that the Social Security Tax be frozen at existing levels; that will not be done, it now seems certain, but that isn't a reversal of White House programming because Ike reversed his position to make possible vast broadening of the Act's coverage.

The things he asked for and didn't get include increased postal rates of more sweeping scope that congress was willing to impose--but may this year; statehood for Hawaii and representation in congress for the District of Columbia--both renewed this year; re-examination of the labor-management law--subject of a special, detailed mes-

sage; extension of corporate income taxes--another repeated request. The status quo in two always contentious fields--agriculture and housing--was retained last year; his words to congress in those regards indicates no intent to expect drastic change this year.

Because the military background of the President gives him a somewhat different viewpoint than might be held by the professional politician, Ike sees improvement in the world situation as the bright feature of 1953. He has not given deserved emphasis to the fact that the economy of the United States is so largely controlled by global happenings, that improvement in that area is not only military and diplomatic, but very definitely marks a strident step toward a sounder economy.

Having seen their senate numerical control evaporate when a democratic governor (Lausche of Ohio) appointed a member of his own party to fill the vacancy caused by the death of a republican, GOP leaders are huddling to probe the desirability of changing the rule on appointments. A provision that the appointive senator must come from the same party as his predecessor has some support; or special elections might be required, as they now are in the cases of vacancies arising in the lower house. There are some practical difficulties in either approach. But, as a starting point in these discussions, it must be accepted that the State of Ohio, which chose two republicans to sit in the senate, now has but one of that party.

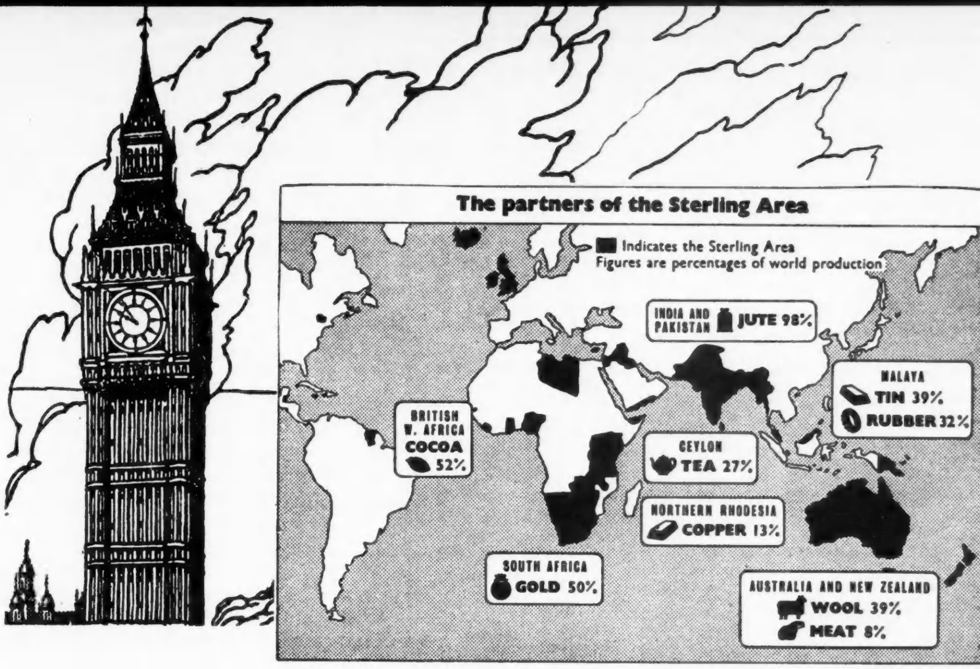
A special election wouldn't be ironbound insurance. The State of Wisconsin lost a republican house member--and a democrat was elected several months ago to fill the spot. He was the first democrat ever chosen by that district. Wisconsin has two GOP senators. No one can know whether the democratic trend extends beyond Rep. Johnson's bailiwick. In New Jersey, a similar case is found in election of a democrat to succeed a republican house member, and it went beyond that to write statewide implications: a democrat succeeded a republican as governor.

Ohio, to be sure, hasn't elected a republican to the U. S. Senate in two decades. The late Robert A. Taft had landslide elements in his win. Probably he could have defeated any opposition candidate, but sight must not be lost of the fact that his opponent two years ago was "Jumping Joe" Ferguson who probably had less reason to expect election than any other man nominated by either party in recent history. He's the one who answered a question, "What's going to happen in Formosa?" with a cocksure: "I'll carry it!" On the appointive problem: there aren't half a dozen states where the governor and the senators aren't of the same party anyway.

There is no hope of satisfying the patronage demands of republican congressmen without disrupting government operations and the White House has made it clear, through the GOP National Committee, that it has no intention of doing that. The committee thinks it has done a reasonably good job. It has placed more than 5,000 of the party faithful. But the waiting list is just as long today--5,000 more openings must be created or the electorate won't consider it has been given the chance it asked for in the election, say the congressmen who think their election organizations at home will fall apart if the rewards of victory aren't forthcoming.

Antiquated business methods, inefficient operations, and duplications of work for almost 50 per cent of the "deficit" shown in Post Office Department Operations. This is the finding of experts commissioned by congress to see just what's wrong with the postal service. Annually, Postmasters General have placed the loss solely on the ground of postal rates which are too low; Presidents have recommended substantial increases in those rates; congress, year after year; has granted some boosts but each time suggested that a study be made to decide whether the Post Office Department is efficient, up-to-date. The answer now is in the record and it's all negative.

Some higher rates are proposed in the service which costs the taxpayers more than half a billion dollars more than it takes in. There are some demonstrated disparities between what it costs to deliver mail matter, notably printed material, but the historic purpose of spreading information has been kept in sight. For example, a large, well-manned agency handles the business of Radio-TV and the taxpayers pay for the upkeep, even those taxpayers who do not have sets in their homes.



Pound Sterling
At The Crossroads

By V. L. HOROTH

The Conference of the Commonwealth Finance Ministers, held in Sydney, Australia, during the second week of January, received little publicity, in contrast with a similar gathering held in London in December 1952. The main reason for this was that the Ministers really had very little to do except for some routine reviewing of last year's developments and reaffirming that "the best approach to the lasting stability for the sterling area's balance of payments is by way of well-conceived development of Commonwealth resources."

At any rate, a "dash" for convertibility in the near future is out of the question. The cold reception last March by the new Administration to the British suggestion that the United States provide a several billion dollar "cushion" for convertibility, led to the realization in London that it may take Washington at least two years to make up its mind. Similarly, another way in which a "cushion" of reserves for convertibility could have been provided—raising the price of gold—also received a cold shoulder not only in March 1953, when Messrs. Eden and Butler visited here, but also when proposed again at the annual meetings of the World Bank and the International Monetary Fund last September.

According to the opening Sydney speech of Britain's Chancellor of the Exchequer, R. A. Butler, convertibility depends in the main on three things: (1) maintenance of strict internal policies in Commonwealth countries, (2) the degree of support that might be forthcoming; in this case Mr. Butler mentioned that much would depend upon the recommendations of the Randall Commission —and (3) the pattern of the trade that might be established as a result of the development of Commonwealth resources "Our theme must be the expansion of trade," declared Mr. Butler," not restriction. If we stick to this with real faith in expansion and development of our resources and gradual but firm moving toward freer trade and a freer balance of payments system, we shall get through whatever trouble may arise and we will build up larger reserves so necessary for the sterling area."

The Building up of Reserves

The building up of the sterling area gold and dollar reserves proceeded quite satisfactorily in 1953, though at a very slow pace during the latter half of the year. Compared with the low point of $1,685 million in June 1952, the reserves increased to $2,518 million by the end of 1953, or by some $833 million. In addition to these reserves the individual sterling area held well over one billion dollars in special gold and dollar reserves. South Africa alone held nearly $266 million; however, the Union's ties with the sterling area were further loosened during the year, and the authorities in Pretoria will act in the future more or less independently of London. In case of need, London could probably also use some $750 million in dollar stock exchange securities.

However, most British experts believe that with reserves or dollar credits totaling less than $8 billion, a dash for convertibility might be courting a failure similar to that in 1947. They point out that Britain's short-term liabilities stood at the equivalent of $11½ billion as of June 1953, and that a business recession in the United States might reverse the present up-trend in the reserves. Incidentally, in this connection, a proposal made by Great Britain

Sterling Area's Balance of Payments with the Dollar Area

(In Millions of Dollars)

	1950 12 Mos.	1951 12 Mos.	1952 1st H.	1952 2nd H.	1953 1st H.
United Kingdom Account:					
Imports	1,206	2,055	991	677	695
Exports	907	1,102	560	592	612
Trade Balance	− 299	− 953	− 431	− 85	− 83
Invisible Transactions	+ 57	− 250	− 125	− 148	+ 24
Defense Aid	....	+ 11	+ 162	+ 176	+ 154
Capital Transactions	+ 364	− 286	+ 34	+ 33	+ 59
Net	+ 122	−1,478	− 360	− 24	+ 154
Overseas Sterling Area Account:					
Imports	725	1,315	830	530	425
Exports	1,220	1,645	685	605	600
Trade Balance	+ 495	+ 330	− 145	+ 75	+ 175
Invisible Transactions	− 22	− 42	+ 47	+ 126	− 42
Gold Sales	+ 281	+ 218	+ 145	+ 56	+ 88
Net	+ 754	+ 506	+ 47	+ 257	+ 221
Dollar Trans. with Non-Dollar Areas	− 14	− 167	− 336	− 71	+ 145
Net Gold and Dollar Surplus or Deficit	+ 862	+1,140	− 648	+ 161	+ 521

Source: United Kingdom, Balance of Payments, 1946-1953, October, 1953.

that the sterling area's reserves be used to offset a possible recession in the United States met, according to a dispatch to the London Financial Times, with "unanimous opposition from the other Commonwealth countries."

The growth of the sterling area's gold and dollar reserves has been primarily due to a remarkable change in the balance of payments with the outside world, and with the dollar area in particular. As the reader will see from the accompanying table, the huge deficits with the dollar area which prevailed until the middle of 1952 were transformed into sizeable surpluses during the last year and a half. It will be noted that both Great Britain and the overseas sterling area contributed to this improvement. As a matter of fact, if military shipments were excluded, it would be found that Britain's trade with the United States is now in balance.

U. S. Trade with the Sterling Area

(In Millions of Dollars)

	1951 (12 Mos.) Exports	1951 (12 Mos.) Imports	1951 Bal.	1952 (12 Mos.) Exports	1952 (12 Mos.) Imports	1952 Bal.	1953 (9 Mos.) Exports	1953 (9 Mos.) Imports	1953 Bal.
United Kingdom	901	466	+435	676	485	+191	425	417	+ 8
Overseas Sterling Area:									
India	463	297	+166	381	272	+109	122	175	− 53
South Africa	247	138	+109	214	105	+109	164	71	+ 93
Australia	178	350	−172	175	154	+ 21	86	95	− 9
New Zealand	58	97	− 39	43	85	− 42	25	55	− 30
Malaya	58	426	−368	36	382	−346	23	170	−147
Ireland	53	8	+ 45	38	10	+ 28	25	5	+ 20
Pakistan	38	44	− 6	55	23	+ 32	53	20	+ 33
The Rhodesias	11	27	− 16	11	25	− 14	7	46	− 39
Iraq	29	20	+ 9	23	10	+ 13	14	9	+ 5
Hongkong	29	9	+ 20	27	12	+ 15	26	11	+ 15
Ceylon	19	49	− 30	26	41	− 15	6	25	− 19
Brit. West Indies(a)	53	22	+ 31	67	24	+ 43	45	24	+ 21
Brit. West Africa	17	141	−124	21	111	− 80	13	89	− 76
Brit. East Africa	8	35	− 27	9	56	− 47	9	28	− 19
All Others	44	51	− 7	58	67	− 9	41	69	− 28
Total Above	1,305	1,714	−409	1,184	1,377	−193	659	892	−233
Total Sterling Area	2,206	2,180	+ 26	1,860	1,862	− 2	1,084	1,309	−225
Percent of U. S. Trade	14.7	19.9		12.3	17.4		9.2	15.7	

(a)—Including Brit. Guiana.

Pound Sterling Stronger

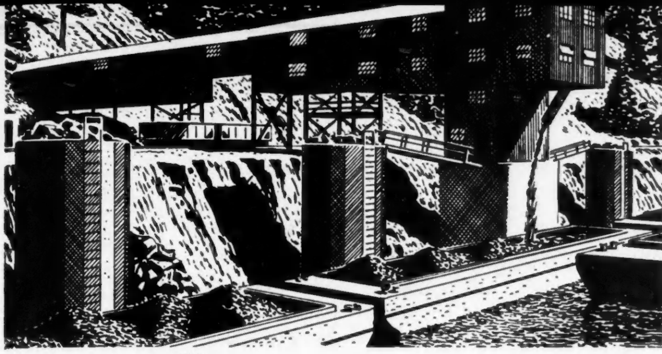
The improvement in the sterling area's balance of payments was also reflected (1) in the clearing up of the "mess" which various sterling "varieties" — and some experts claim that they number several hundred—have created in British trade and finances, and (2) in general hardening of these various kinds of sterling.

For example, the "free" or "official" pound sterling, which one and a half years ago was quoted as low as \$2.78, entered the new year well above par, at over \$2.81. Most of the numerous "transferable sterling" varieties—sold by exporters in certain groups of countries to importers in the same group of countries—are now within a few cents of the parity, after being as low as \$2.40 in 1952. "Residential sterling," which early in 1953 was around \$2.30, is now close to \$2.70. The biggest rise took place in so-called "switch pounds" used in security deals. They were \$2.03 in January 1952 and are now around \$2.71.

As a matter of fact, the pound sterling has become a hard currency in many parts of the world, as for example in Japan, Brazil, Argentina, certain Levant countries, and behind the Iron Curtain. Some countries are now suffering from a "sterling gap" (Japan) rather than from a "dollar gap," and one of the problems that faced the Commonwealth Finance Ministers in Sydney was to decide whether the policy of making the pound sterling scarce had been pushed too far. Granting of credit to a country like Brazil or Japan not only creates sterling and thereby jeopardizes the balance of payments but, as the London Financial Times points out, diverts capital from objectives which may be of more permanent value for the sterling area.

"March Towards Freedom"

There is no doubt that (*Please turn to page* 588)



What to do About...

1953's Dividend Casualties

By J. S. WILLIAMS

Currently, one of the most perplexing investment problems is what to do about stocks whose dividends were passed or cut last year. There are two aspects to this problem: one is—what can be done to recoup stock market losses arising from adverse dividend action; the second is—how can the lost income be safely replaced? Quite often, both ends can be accomplished by making a sound substitution for the particular stock which proved a poor investment. On the other hand, circumstances may dictate the advisability of retaining the issue, despite lost income and lower market values. In the final analysis, however, the wisest procedure is to re-examine the position of the individual stock in question with an open mind and thus determine the most appropriate action as to whether to sell, hold or switch.

In this survey, we have made a fresh examination of the position of 84 stocks, listed on the New York Stock Exchange, and on which dividends were either omitted or reduced in 1953. This is actually equivalent to less than half the number on which such action was taken last year but for purposes of practicality we limited our inquiry into only the most representative and familiar issues. We also have eliminated a small number of issues which were dividend casualties technically in 1953 but whose status has since been changed owing to reinstatement of former payments. In some cases, too, we excluded stocks of companies whose dividend payments were postponed until this year in order to enable stockholders to take advantage of the lower income tax rates now applicable.

The 84 stocks represent three main categories of dividend casualties: (1) dividends omitted outright, (2) reductions in regular dividend rates, and (3) reductions or omissions of "extras" or year-end dividends. Of this number, 23 omitted their dividends at the last directors' dividend meeting; 22 reduced their regular rate of payment, and 39 either omitted or reduced their extra or year-end dividend.

Investors holding stocks in these companies are naturally more concerned by outright omissions than by simple cuts in regular rates, though in some cases the latter might hold some significance as to future dividend action. Least serious, from the investors' viewpoint, are reductions or omissions of extras and year-end dividends though these are by no means to be minimized in view of the fact that in recent years stockholders have come to depend on extra payments almost as much as on regular payments themselves.

Almost without exception, omission of a regular dividend during a period of general prosperity such as we have been having reflects fundamental weakness in earning power or financial position, or both. This may or may not be due to managerial insufficiency; or it may be due to a generally unsatisfactory condition in an entire industry with its inevitable effects on individual companies. The first of these two factors is the more serious; the second can be and often is overcome when the industry recovers; in which case, well-managed companies within the industry will also recover. However, in both cases it is urgent to re-examine fundamental prospects in order to more realistically assess the desirability of holding for eventual recovery.

A cut in the regular dividend is also indicative of growing stress but, especially where companies possess adequate finances and basic earning power not likely to be unduly impaired, it may not be necessary to disturb existing holdings. Each situation, of course, must be decided on its own merits but where the margin of earnings over dividends again becomes substantial through reduction in the regular rate, the cut in dividends may actually have the effect of imparting an element of strength rather than the reverse. On the other hand, a reduction in regular dividend rates may (*Please turn to page* 583)

Companies That Have Passed or Reduced Dividends in 1953

	Earnings Per Share 1952	Earnings Per Share 9 Mos. 1953	Dividends Paid 1952	Dividends Paid 1953	Price Range 1952-1953	Recent Price	Indicated Yield	Remarks	Rating
Abbott Laboratories	$ 2.25	$ 1.83	$ 1.95	$ 1.80	64¼- 39⅛	45½	3.9%	Elim. $.15 in extras	A1
Allied Mills	3.33	2.69[1]	2.25	2.00	36 - 24½	26½	7.5	Elim. $.25 extra	A2
American Crystal Sugar	4.55	4.30[2]	2.65	1.50	26 - 20⅝	22½	6.6	Reduced extra by $1.15	A2
American Smelting & Ref.	5.35	1.67	3.00	2.50	53 - 25½	30	8.3	Reduced $.75* to $.50* 8/31	B1
American Snuff	3.05	2.06	2.50	2.40	40¼- 35¾	37	6.4	Elim. $.10 extra	A1
American Viscose	4.88	2.53	2.50	2.00	69⅞- 35⅛	34½	5.7	Elim. $.50 year-end	A1
Anaconda Copper	4.61	2.78	3.50	3.00	55¾- 29	31	9.6	Dec. payment reduced $1.25 to $.75	A1
Anaconda Wire & Cable	7.44	5.92	4.25	4.00	57 - 40¼	47	8.5	Dec. payment reduced $2.00 to $1.75	A2
Archer-Daniels-Midland	4.51	2.34[1]	2.80	2.40	60 - 30	35½	6.7	Reduced $.70* to $.50* 9/1	B3
Artloom Carpet	1.28	.45[3]	.50	.45	10½- 5⅛	6	......	No div. action 11/11	C4
Avco Mfg.	1.20	.32	.60	.30	8¾- 4½	5	......	Deferred div. action 8/28	C4
Beech Aircraft	2.82	1.73	1.05	.75	16¾- 9	10	......	No div. action 10/23	C3
Bristol-Myers	1.47	1.08	1.60	1.00	35⅜- 17½	22½	4.4	Reduced, $.40* to $.25* 3/2	B1
Brunswick-Balke-Collender	1.32	.15	1.00	.87½	22½- 13¼	14	6.2	Reduced, $.25* to $12½* 12/15	B2
Burlington Mills	1.09	1.35[4]	1.00	.60	19⅝- 10¼	11	5.4	Reduced, $.25* to $.15* 3/2	B1
Case, (J. I.) Co.	2.83	.13	2.50	2.00	36½- 14½	16½	12.1	Reduced, year-end $1.00 to $.50 (adj.)	A2
Caterpillar Tractor	5.52	4.08	3.00	2.00	66 - 45½	50	4.0	Reduced, $.75* to $.50* 8/10	B1
Celanese Corp. of Amer.	.77	.95	2.25	1.25	51⅝- 18¾	20	6.2	Reduced, $.50* to $.25* 3/24	B1
Central Violeta Sugar	2.89	(d) .98[4]	2.00	1.07	21 - 10⅛	11	9.7	Annual payment reduced 3/27	B2
Century Ribbon Mills	.78	(d) .48	.70	.60	10 - 6⅜	7½	8.0	$.10 extra omitted	A2
Cerro de Pasco Copper	8.79	.96	2.00	1.25	58¼- 19⅝	21½	5.8	Reduced, $.50* to $.25* 6/26	B1
Chile Copper	3.27	......	2.00	1.00	48¾- 22	23	......	Deferred div. action 8/27	C4
Consolidated Retail Stores	.63	.29	.80	.50	11 - 5¼	6½	7.6	Reduced, $.20* to $.10* 4/1	B2
Crown Cork & Seal	.26	.43	.50	.15	19¾- 10⅝	12½	1.2	Reduced, $.25* to $.15* 12/31	B1
Cuban American Sugar	3.70	1.01[4]	1.75	1.00	20⅞- 11⅜	13	7.7	Sept. payment reduced	B2
Detroit Michigan Store	.24	(d) .60	.60	.15	6¾- 2¼	2½	......	Omitted div. 3/25	3
Dunhill International	1.85	.64[5]	3.00	1.50	47 - 32	36	4.1	Omitted Oct. $1.50 extra	A2
Elliott Company	5.08	3.20	2.10	2.00	33⅝- 22	25½	7.9	Reduced Dec. extra	A1
Fajardo Sugar	2.89	.61[6]	2.50	2.00	23¾- 16½	17	11.7	Omitted Sept. $.50 extra	B2
Flintkote Co.	3.61	2.93[3]	2.50	2.00	32⅜- 25⅛	29	6.8	Omitted Dec. $.50 extra	A1
Florence Stove	2.46	(d) .93	1.00	.50	24½- 16¼	17	2.9	Omitted Div. 8/20	C3
Froedtert Corp.	1.58	1.34[6]	1.00	.75	18⅞- 10	11	6.8	Reduct. $.25* to $.15* 4/30 Inc. 10/31	B1
General Time	4.08	2.86[3]	2.50	2.00	35⅛- 25¼	26½	7.5	Omitted Jan. $.50 extra	B1
Georgia-Pacific Plywood	1.64	.75	1.50	1.00	23¼- 9¼	11	......	Red. div. 8/28; no div. action 10/28	C4
Gleaner Harvester	2.84	1.17[4]	2.00	.50	23 - 10⅛	12	......	No div. action 5/13	C3
Glidden Co.	3.04	2.02	2.25	2.00	42⅝- 27⅞	33	6.0	Omitted Jan. $.25 extra	A1
Goodall-Sanford	3.02	.73[1]	1.50	.75	19 - 11	13½	......	No div. action 6/23	C4
Grayson-Robinson Stores	.68	.70[6]	1.00	.75	18 - 7	8½	......	No div. action 12/15	C3
Green (H. L.) Co.	3.28	1.36	2.50	2.25	41⅞- 29⅝	33	6.8	Reduction Jan. extra $.50 to $.25	A1
Guantanamo Sugar	(d) .21	(d) .33[4]	.75	nil	13¼- 4¼	5	......	No div. action 8/5	C3
Holland Furnace	1.45	.42	2.00	1.00	22⅜- 10⅝	11½	8.7	Reduced div. $.50* to $.25* 4/1	B2
Household Finance	4.16	3.71	2.50	2.40	52 - 38	48	5.0	Sub. 10% stock for $.10 Mar. extra	A1
Howe Sound	1.70	.48	1.30	.65	29¾- 9⅝	12	5.4	Reduced, $.35* to $.10* 6/10	B1
Hudson Bay Mining	5.45	3.25	5.00	4.00	66¾- 36¼	39	10.2	Omitted $1.00 Dec. extra	A1
International Nickel	3.91	2.73	2.60	2.35	48⅛- 34½	36	6.5	Reduction in Dec. extra	A1
Lehigh Coal & Navigation	.91	.13	.70	nil	11½- 7½	8½	......	No div. action 4/23	C3

Companies That Have Passed or Reduced Dividends in 1953 (Continued)

	Earnings Per Share 1952	Earnings Per Share 9 Mos. 1953	Dividends Paid 1952	Dividends Paid 1953	1952-1953 Price Range	Recent Price	Indicated Yield	Remarks	Rating
M & M Woodworking	.77	.84	.85	.45	15⅞- 6¼	9	5.0	Two lower div. rates from 1952	B2
Magic Chef	1.26	.31	.35	.30	10¼- 6⅛	6½	......	No div. action 7/29	C3
Manati Sugar	1.37	(d)1.31[1]	.60	nil	11⅜- 3½	4½	......	Omitted div. 9/8	C3
McCrory Stores	1.37	.40[5]	1.25	1.10	17⅞- 11¾	13	8.4	Reduced extra div.	A2
Midland Steel Products	7.19	3.31	4.00	3.00	46⅝- 29½	32	9.3	Omitted $1.00 Dec. spec. div.	A2
Minneapolis Moline	4.31	1.06	1.60	1.20	24⅛- 8⅞	10½	......	No div. action 10/22	C4
Minn. St. P. & S. S. Marie R.R.	1.45	1.45	1.00	.50	19⅞- 8⅜	10	5.0	Paid $.50 annual instead of $1.00	B2
Myers (F. E.) & Bros.	5.17	4.83[7]	3.00	2.80	52½- 35¾	39	7.2	Reduced $.75* to $.50 6/29	B1
Nat. Malleable & Steel Cast.	5.19	3.38	3.00	2.00	40⅞- 20½	23	8.9	Omitted $1.00 Dec. extra	A1
National Vulcanized Fibre	1.11	1.45	1.20	.90	16 - 10	11	8.1	Reduced div. 2/16, $.30* to $.20*	B2
New York City Omnibus	2.52	.74	2.00	nil	17⅝- 14⅜	16½	......	Omitted div. 3/12	C2
Pabco Products	1.00	.90[1]	.45	.25	17¾- 10⅞	15	1.6	Total 1953 payments reduced	B2
Pacific American Fisheries	(d) .56	......	1.00	nil	19⅞- 7⅝	7½	......	Omitted Jan. div.	C3
Pacific Mills	2.11	1.96	1.50	1.40	35¼- 22⅜	24	5.9	Reduced rate from $.50* to $.35*	B2
Pacific Tin Consol.	1.86	.73	.95	.70	8⅝- 4⅝	5	14.0	Reduced, $.20* to $.15* 9/11	B2
Park & Tilford Distillers	1.29	(d) .17	3.00	1.71½	43¼- 23	21½	7.9	Reduced, $.75* to $.37½* 2/6	B2
Parke Davis & Co.	3.32	1.37	1.90	1.60	58 - 30½	34	4.7	Reduced, $.45* to $.35* 7/31	B1
Phila. & Reading Coal & Iron	2.01	(d) .13	1.40	.60	20½- 8⅞	9½	......	Passed dividend 8/27	C3
Pittsburgh Screw & Bolt	.93	.63	.75	.60	10⅞- 6½	6½	9.2	Omitted $.15 year-end	A2
Robbins Mills	(d)1.25	(d)1.08	1.25	.30	29¾- 11⅛	11	......	No div. action 6/30	C3
Royal Typewriter	2.62	2.32[6]	2.00	1.62½	24¾- 14½	16	10.1	Reduced, $.50* to $.37½* 4/15	B2
St. Joseph Lead	3.61	2.20	3.00	2.75	54 - 30⅝	32	8.5	Reduced, $.75* to $.50* 12/10	B1
Simonds Saw & Steel	5.68	3.67	3.25	3.00	49 - 35	37	8.1	Lowered Dec. payment	B2
Texas Gulf Sulphur	7.52	5.59	7.00	5.00	116¾- 78¼	89	5.6	Reduction in extras	A1
Union Asbestos & Rubber	1.30	.31	1.00	.75	14⅜- 7	8	......	No div. action 6/17	C3
United Electric Coal Cos.	2.26	2.08[6]	1.75	1.00	21⅜- 10¾	14	7.1	Extra div. omitted	A2
United Fruit	4.32	2.95[5]	4.00	3.50	64¾- 44	47½	7.3	April $.50 extra omitted	A1
U. S. Gypsum	11.55	9.33	7.50	7.00	120 -101¼	116	6.0	Dec. $2.00 extra reduced to $1.50	A1
U. S. Lines	6.95	3.25	2.00	1.50	23½- 13⅛	16	......	No div. action 10/20	C4
U. S. Smelt., Ref. & Mining	4.63	(d)4.31	2.00	1.25	87½- 37	40	......	No div. action 6/10	C4
Walgreen Co.	2.44	2.26[4]	1.85	1.70	29⅞- 21⅝	25	6.8	Reduction in Sept. extra	A1
Walworth Co.	1.21	.42	.55	.30	10¾- 5	6	5.0	Reduced, $.30* to $.15*	B2
Waukesha Motor	3.22	1.69[6]	1.25	1.00	18½- 13	14	7.1	July $.25 extra omitted	B2
West Virginia Coal & Coke	1.36	.84	1.20	1.10	16⅞- 12	12½	8.9	Reduced, $.30* to $.20* 12/14	B2
White Sewing Machine	.72	.01	1.00	.75	14⅝- 4⅞	6	......	No div. action 10/14	3
Wyandotte Worsted	1.55	.35	.60	.40	13⅞- 6¾	7	5.7	Two $.10 extras omitted	B2
Young (L. A.) Spring & Wire	2.42	4.81[6]	2.50	2.00	34½- 20¼	23	8.9	Extra div. reduced	A2
Zonite Products	.35	.07	.25	.10	5⅞- 3¾	4½	......	No div. action 11/24	C3

(d)—Deficit.
*—Quarterly or periodic payment.

1—Year ended June 30, 1953.
2—Year ended March 31, 1953.
3—40 weeks ended October, 1953.
4—Year ended September 30, 1953.
5—First 6 months 1953.
6—Year ended July 31, 1953.
7—Year ended October 31, 1953.

EXPLANATION OF RATINGS (See Text)

A—Companies reducing or omitting extras, etc.
B—Companies reducing regular dividends.
C—Companies omitting dividends.
1—Hold.
2—Replacement optional.
3—Replacement indicated.
4—Hold.

Effects of *Dilution* on...

Utility Shares

By JAMES CURTIS

This has quite obviously been the golden era for the utilities. Their fantastic growth is fulfilling all the roseate dreams of the 1920s. However, while stockholders have benefited somewhat, in many cases the increased profits which might well be expected to reach stockholders have been drained off by comparatively static rates and high operating costs. In other words, the consumer and the wage earner have benefited first, the stockholder last. In the past year or two the regulatory commissions have recognized this difficulty and many utilities have received increased rates. However, there is usually a lag in obtaining such relief and hence earnings have proven disappointing in some cases.

Another important factor is the constant dilution of earnings by additional issues of common stocks. Some companies have been issuing common stock almost every year. Thus Southern Public Service, a prosperous growth company in Texas, Oklahoma and New Mexico, is currently making its eighth annual offering of common stock through rights. Pacific Gas & Electric, with the largest construction program of any electric-gas utility, has been issuing stock almost every year. Many other growth companies, such as Middle South Utilities, Southern Company, Consumers Power, Ohio Edison, Central & South West, etc., have also had to do recurring equity financing.

Problems in Equity Financing

This frequent emission of common shares has meant temporary dilution of earnings. The return on the investment resulting from the previous stock issue has hardly been reflected in the share earnings, in some cases, before another dilution occurs. To get around this some companies have now adopted the device of reporting share earnings based on "average shares" instead of outstanding shares. Certain certified public accounting firms have approved this method, assuming that the shares are averaged quarterly so that the earnings figures correspond to the amount of dividends paid out on the stock during the 12 months' period. Other companies still adhere to the standard method of using outstanding shares and as a result their share earnings take a sharp drop whenever new stock is issued.

The penalty of issuing common stock is not merely an arithmetical dilution of share earnings. The amount realized by the utility company for the sale of the stock is sometimes substantially below the market price before the announcement of new financing; or a prosperous company may forego an underwriting of rights and give stockholders a valuable concession on the subscription price. In other cases, the offering may come during a period of market weakness, as happened with several companies last spring. Even such a popular stock as American Gas & Electric dropped sharply at that time, partly as a result of the stock offering. And regardless of special market factors, there is apt to be a "normal" deterioration in price after a stock offering is announced, and in the case of a subscription offering during the period when many holders of rights dump them on the market. Together with the cost of underwriting and issuing stock, the utility is hurt by this price deterioration, so that it does not obtain the full benefit of the equity financing to which it might seem entitled.

In the case of the *American Telephone & Telegraph* while the company receives many important benefits otherwise the cost of financing must be considered. Some common stock is sold directly to employees on the instalment plan at a price substantially below the general market. The company also issues valuable rights to stockholders for the purchase of its convertible bonds (recently some $600 million debentures were sold in this fashion). These debentures are gradually converted into common stock (with a further cash payment by the holder) so that in effect the company is always doing equity financing. The system has worked wonderfully well, keeping earnings at a stable level, but nevertheless American Telephone & Telegraph has had to incur substantial cost of capital for the use of these efficient financing methods.

The electric utility companies have adopted another special accounting method for combating the effects of dilution of earnings. In the past it has frequently taken two or three years to complete a new power plant because of delays in obtaining generators and boilers, labor interruptions, etc. This time is now shorter, but nevertheless the delay is a factor in earnings, since a large amount of cash is tied up in plant construction for a considerable period before it produces any earnings. Meanwhile the company has to pay out interest and dividends on the securities sold to raise the cash.

To get around this difficulty an item was introduced in fixed charges called "Interest to Construction, Credit." Usually this meant a bookkeeping credit of 6% on the amount invested in new plant during the interim period before it got into operation (6% is the theoretical return which utilities are usually allowed to earn under state regulation). This practice, along with the use of "average shares," has helped to buttress electric utility earnings against the effects of huge equity emissions. A rather extreme instance is that of *Washington Water Power Company,* which in 1952 constructed a huge hydro unit, the Cabinet Gorge Plant, about doubling its entire generating capacity. "Interest to Construction, Credit" amounted to $1,201,000, accounting for 51c a share out of the $1.67 reported for the year 1952. In the 12 months ended November 30, 1953 the credit had dropped to $260,000 and share earnings were $1.68, or about the same as in the previous period. In this case the company was able to improve equity by raising necessary capital through issuance of senior securities only. It was able to do this because of an initially high equity ratio.

New Plants and Future Earnings

The question has occasionally been raised whether some of these so-called (*Please turn to page* 585)

Post-War Changes in Capitalization of Eight Public Utilities

	Capitalization — Bonds* (Mil.)	Capitalization — Preferred Stock* (Mil.)	Capitalization — Common Stock (Mil. Shares)	Earned Per Share Common	Common Dividend Paid Per Share
Central & South West Corp.					
1946[1]	....	....	......	......	......
1947	$ 94.7	$ 31.8	6.6	$1.37	$ .35
1948	115.1	32.1	7.2	1.38	.75
1949	122.4	39.5	7.9	1.40	.82½
1950	137.9	39.5	7.9	1.44	.90
1951	155.4	39.5	8.4	1.34	.90
1952	170.5	39.5	8.4	1.60	.95
1953**	177.0	39.5	9.0	1.70[10]	1.04
				Recent Price:	23½
				Yield:	4.4%
General Public Utilities					
1946	171.5	52.5	7.6	1.19	.25[2]
1947	300.7	72.6	7.5	1.35	.80
1948	320.5	80.1	7.5	1.35	.80
1949	182.2	60.6	7.5	1.90	.85
1950	188.0	63.6	7.5	2.08	1.10
1951	194.0	66.6	8.0	1.84	12.5
1952	209.3	75.1	8.6	2.17	1.45
1953**	242.0	75.1	9.1	2.35[10]	1.60
				Recent Price:	28½
				Yield:	5.6%
Gulf States Utilities					
1946	28.9	12.0	.3[3]	......	......
1947	28.7	17.0	1.9	1.09	.25
1948	41.5	17.0	2.1	1.23	1.05
1949	66.3	23.0	2.4	1.53	1.20
1950	79.1	30.0	2.7	1.48	1.20
1951	88.9	30.0	2.8	1.29	1.20
1952	98.2	35.0	3.1	1.46	1.20
1953**	106.0	35.0	4.2	1.65[10]	1.20
				Recent Price:	29
				Yield:	4.1%
Middle South Utilities					
1949[4]	172.0	27.5	4.9	1.23	.27½
1950	194.0	27.5	5.6	1.89	1.10
1951	199.9	27.5	6.0	1.81	1.20
1952	221.2	27.5	6.6	2.03	1.25
1953**	242.0	33.5	7.1	2.10[10]	1.37½
				Recent Price:	27½
				Yield:	5.0%

	Capitalization — Bonds* (Mil.)	Capitalization — Preferred Stock* (Mil.)	Capitalization — Common Stock (Mil. Shares)	Earned Per Share Common	Common Dividend Paid Per Share
Niagara Mohawk Power					
1949[5]	$210.2	....	......	......	......
1950	235.1	$ 79.0	9.4[6]	$1.96	$1.40
1951	250.1	79.0	10.4[6]	1.81	1.45
1952	289.4	79.0	10.5[6]	1.92	1.60
1953**	317.0	79.0	11.5[6]	2.00[10]	1.60
				Recent Price:	28½
				Yield	5.6%
Ohio Edison					
1946	70.5	22.2	2.0	2.92	2.10
1947	69.3	22.2	2.0	3.15	2.00
1948	79.8	22.2	2.2	2.80	2.00
1949	79.8	22.2	3.4	2.95	2.00
1950	140.8	37.8	4.3	2.93	2.00
1951	140.8	41.8	4.8	2.60	2.00
1952	146.8	56.9	4.8	2.97	2.05
1953**	147.0	71.7	5.2	3.10[10]	2.20
				Recent Price:	39
				Yield	5.6%
Pacific Gas & Electric					
1946	330.4	144.6	6.2	2.72	2.00
1947	402.2	144.6	6.8	2.45	2.00
1948	473.3	169.6	7.5	2.46	2.00
1949	548.7	207.1	8.2	2.06	2.00
1950	623.6	244.6	9.9	2.51	2.00
1951	617.7	284.2	11.3	2.07	2.00
1952	658.7	291.9	13.6	2.31	2.00
1953**	720.0	291.9	15.5	2.60[10]	2.05
				Recent Price:	40
				Yield:	5.1%
Public Service Elec. & Gas					
1946	192.4	65.3	17.8	1.28	1.00[9]
1947	192.4	65.3	17.8	1.17	1.00[9]
1948[7]	274.6	....	11.5[7]	2.16	.80
1949	292.0	25.0	11.5[8]	2.25	1.60
1950	290.2	25.0	11.5[8]	2.06	1.60
1951	288.2	49.9	11.6[8]	2.13	1.60
1952	326.2	49.9	12.3[8]	1.93	1.60
1953**	337.0	49.9	13.9[8]	1.95[10]	1.60
				Recent Price:	26½
				Yield:	6.0%

*—Includes obligations of subsidiaries.
**—Approximate.
1—Consolidation effective Feb. 3, 1947.
2—Plus stock.
3—Prior to reclassification.
4—After reorganization 5/27/49.
5—After re-adjustment & reclassification from predecessor Co., August, 1949.
6—Combined Class "A" & common stocks.
7—No-par common shares reclassified.
8—Combined $1.40 Pref. common and common stock.
9—Old common stock.
10—Estimated.

photo by Armour

New Life in . . . . . .
Meat Packers

By GEORGE L. MERTON

Benefiting from a reduction in processing and marketing costs that were made possible by a decline in the price of slaughter cattle and calves which they passed on to consumers, most of the meat packing companies in 1953 experienced a substantial increase in unit sales and a considerable improvement in earnings.

Total per capita consumption of all red meats during the year is estimated to have averaged 151 pounds. Of this total beef and veal consumption accounted for approximately 84 pounds, the highest rate in any of the 54 years for which records are available, largely because of price reductions for various cuts of beef and veal at the butcher's counter to which consumers responded. This condition was made possible by the large increase in slaughter of cattle and calves resulting in plentiful supplies that overshadowed the smaller production of pork, estimated at 10 billion pounds, the smallest volume in any of the last 13 years.

Pork prices, as a result, remained relatively high, curtailing capita consumption, although sheep and lamb prices, moving sympathetically with beef prices, as is usual, moved downward to a level about one-third under their 1951 peaks. However, slaughter of sheep and lambs in 1953 increased about 11% over 1952 volume, but production of lambs during the year was only 7% greater, indicating some liquidation of breeding herds. Consequently, it is likely that lamb production and slaughter in 1954 will drop back to the 1952 level, with the possibility that prices may edge up from late 1953 quotations of slightly more than \$18 per 100 pounds, up from approximately \$15 per 100 pounds that prevailed in the first week of September of last year.

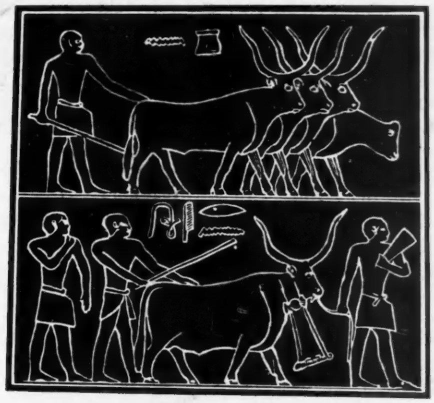
On this basis, lamb prices are expected to remain high in relation to cattle prices. As for cattle prices, the Department of Agriculture sets forth its view of the 1954 outlook by stating "prices of cattle may be as high as this year (1953). However, the beef supply next year (1954) and possibly for several years will continue larger than in years before 1953, and prices can hardly rebound very far." Cattle and calf slaughter in 1954, barring droughts or other adverse weather conditions, is expected to equal or slightly exceed 1953 volume. It is probable though that average weights of animals shipped to the abattoirs will be somewhat lighter. This would mean that supplies of beef and veal may not be any greater, and perhaps slightly under 1953 volume, while an increasing population is expected to hold capita consumption close to the 1954 level.

Retail meat prices during the current year, as well as the values of by-products of the packers, are not expected to change materially. The position of the packers may be further improved this year by slightly higher hog marketings that it is believed will make their appearance by mid-summer. This would be a development that would lessen the drag

on earnings experienced in 1953 because of high pork quotations, despite which the majority of the packers came through with considerably improved earnings because of their ability to lower processing and marketing expenses per unit. Hog prices all through 1953 were greatly above the previous year's level, and were the highest, except for 1947 and 1948, than in any previous year. According to the Department of Agriculture, prices for hogs are expected to remain high through the first half of this year, but the general belief is that late fall farrowings probably will be somewhat above those of 1953, and the spring pig crop will be up considerably from that of the spring of the preceding year. On the assumption that demand for meat will be maintained, as now appears likely, hog slaughter next fall while not going exceedingly high, may bring about a price decline to levels below those that prevailed through most of last year. Meanwhile, greater operating efficiency through plant modernization and other improvements which also contributed to most of the better 1953 showings of the meat packers is likely to be more clearly reflected in this year's earnings by some of the principal packing companies. For instance:

Armour & Co., ever since the end of World War II has been pursuing a program of improving its properties, equipment and methods, inaugurating last year a $10 million program for realigning most of the meat processing operations in its Chicago plant. It has already modernized principal refineries and through improvements has expanded canned meat production, and in November, 1953, got its newly opened Armour Laboratories Pharmaceutical Center in production of Armour brand-name pharmaceuticals.

Reflecting the greater efficiency of processing as a result of the more plentiful supplies of cattle in the fiscal year ended Oct. 31, last, Armour's net rose sharply to $10.3 million, up $3.2 million from the preceding year, and equal to $20.68 a share for the prior preferred stock on which at year's end dividend accumulations totaled $12 a share. Allowing for one year's prior preferred dividends of $6 a share 1953 net for the common stock was equal to $1.81 a share, as compared with $1.00 a share for the previous year on the same basis. This accumulation of prior preferred dividends puts off to the future any prospect of a distribution for the common. Although finances, as disclosed by the consolidated balance as of Oct. 31, are strong, cash amounting to $24.7 million, accounts receivable of $82.8 million, and $166.2 million in products and supplies, to bring current assets to $273.8 million, or 2.49 times total current liabilities, it is undoubtedly the desire of management to conserve liquid strength in view of modernization and improvement expenditures and the necessity of eventually liquidating back dividends on the prior preferred aggregating $6 million. The common stock is speculative, having no immediate valid prospects. The preferred, however, is worth retaining, anticipating further payments of dividend arrears.



Cattle breeding in ancient Egypt—4,000 years ago.
From World Population & Production—W. S. and E. S. Woytinsky

Cudahy Packing Co., for a long time beset by labor troubles, experienced little change during 1953 fiscal year in the pattern of slow-downs, work-stoppages, and a two-week strike at its Omaha, Neb., plant. Also, in June, 1953, the company suffered a loss of almost a half million dollars to its Sioux City plant from the flash flood of the Floyd River, a loss that was not covered by flood insurance. Offsetting these unfavorable developments to some extent was the disposition of the unprofitable Los Angeles plant that had been closed down, but which entailed charging to earned surplus account $230,942 as additional cost in disposing of this property.

Despite these frustrations, however, final results for the last fiscal year, with net profit of $542,677, equal to six cents a share for the common stock, was in contrast to the 1952 fiscal year deficit of a little more than $7.25 million, a deficit equal to $5.02 a share for the common. Cudahy which more than a

Statistical Data on Meat Packing Companies

	Net Sales (Millions) 1952	Net Sales (Millions) 1st 9 Mos. 1953	Net Profit Margin 1952	Net Profit Margin 1st 9 Mos. 1953	Net Per Share 1952	Net Per Share 1st 9 Mos. 1953	Div. Per Share 1952	Div. Per Share 1953	Recent Price	Div. Yield	Price Range 1952-1953
Armour & Company	$2,184.0[1]	$2,088.8[2]	.3%[1]	.5%[2]	$1.00[1]	$1.81[2]	......	......	9½	......	12⅞- 8⅛
Cudahy Packing	562.5	465.2[2]	(d)1.2	.1[2]	(d) 5.02	.06[2]	......	......	5½	......	8⅞- 5¼
Hormel (G. A.) & Co.	306.1	313.4[3]	.7	.9[3]	4.02	5.73[3]	$2.50	$2.50	44	5.6%	47 -42½
International Packers	203.8	....	2.4	......	2.52	......	.60	.60	10½	5.7	14⅞- 9⅛
Morrell, John, & Co.	292.4[1]	....	.1[1]	......	.31[1]	......	.50	.50	12½	4.0	15½-10¾
Swift & Co.	2,592.6[1]	2,597.2[2]	.8[1]	1.3[2]	3.66[1]	5.72[2]	2.00	2.40	44½	5.3	45 -30⅜
Wilson & Co.	717.5[1]	674.8[2]	(d) .1[1]	.4[2]	(d) .78	.98[2]	.50	......	8½	......	12⅞- 7¾

(d)—Deficit.
1—53 weeks ended November 1, 1952.
2—Year ended October 31, 1953.
3—53 weeks ended October 31, 1953.
4—Year ended October 31, 1952.

year than a year ago made important changes in top management believes it has further strengthened its executive personnel as recently as last November in what amounted to a veritable shakeup. During the year, management introduced a number of changes designed to achieve greater control of inventory, administrative expenses, costs of production and distribution and to eliminate unprofitable operations. Given a favorable 1954 year from the standpoint of cattle prices and supplies, operating results are likely to show the benefits obtained from this program, especially with the company free of the baneful effect of its heretofore recurrent labor troubles although it is not likely that net income in 1954, at least, will warrant putting the stock on a dividend basis. Moreover, back dividends on the preferred stock at the fiscal years-end amounted to $4.50 a share. The speculative common stock has little attraction.

Hormel (Geo. A.) & Co., one of the most consistent good earners in the meat pack-industry had a record year from the standpoint of sales in its fiscal 12 months ended October 31, 1953. Net income, after higher income taxes, was the third best of any shown for the last 15 years, being equal to $5.73 a share on the common stock, as compared with $4.02 a share for the previous year, and $4.54 for the 1950-51 period. Dividends, maintained at an annual rate of $2.50 a share since 1948, should continue at this rate, yielding at recent price of the stock 5.6%. The shares are worth holding for income, but any possibilities of appreciable market appreciation must be viewed from the longer-range standpoint.

Swift & Co., common stock, in contrast to other issues in the meat packing group, are currently selling at the highest level attained since the 4-for-one split in January, 1930. Market strength of the stock reflects the strong position of the company in the meat packing field, its strong finances and 1953 fiscal year's record earnings. Total sales last year of $2,597 million were the highest in the company's entire history. As a result of the heavy marketings of beef, veal and lamb enabling Swift to move a much larger volume of product through its meating packing plants, operating costs dropped to where net earnings in 1953 increased to 1.3 cents for each dollar of sales, against a net of 0.8 cents in the previous year. Plant improvement and modernization, accelerated in the postwar years, with an increase in net fixed investment in buildings and equipment of $98.3 million, has also been a factor in creating more efficient and economical operations.

Swift's net earnings for fiscal 1953 of $33.9 million, an all-time high, were $12.2 million greater than in the previous year, and were equal to $5.72 a share, as compared with $3.66 a share for the capital stock for the year ended Oct. 31, 1952. The company which has paid dividends, except for the omission in 1933, in every year since 1888, raised distributions for calendar 1953 to $2.40 a share by payment of a 40 cents extra, supplementing the regular quarterly rate of 50 cents. Management, adopting an even more liberal 1954 dividend policy has declared four quarterly dividends of 50 cents each, the first of which is payable April 1, to stock of record March 1, 1954. In addition, an extra dividend of $1.00 a share will be paid to stockholders March 1, to stock of record February 8, of this year.

Swift's consolidated balance as of Oct. 31, last, showed the company to be in a strong financial position, a feature of which was the complete absence of bank loans. Total current assets of $313.7 million, consisted in part of $26.6 million cash and $30.8 million in marketable securities. Against this total, current liabilities amounted to $113.5 million. Swift common, the only stock issue, there being no preferred, is worthy of retention for income and for its longer-range possibilities for enhancement in market value.

Wilson & Co., made a notable recovery in earning power in its 1953 fiscal year ended Oct. 31, net for the period amounting to a little more than $3 million. This was equivalent to per share net of 98 cents on the common stock, and in contrast to 1952 fiscal year's deficit of approximately $736,000, equal to a loss of 78 cents a share, although it should be noted that fiscal 1953 income was aided by the inclusion of about $1.4 million realized from liquidation of some inventories not replaced. On the other hand, earnings of foreign subsidiaries, due to the need for working capital in some countries and the shortage of dollars and currency in others, have not been recently and are not now, available for transmissions to the United States. Net earnings of the foreign subsidiaries for the 1953 fiscal year amounted to $1.2 million. Until foreign earnings are available, dividend payments on the common stock will be dependent upon income from domestic operations but before this can come about consideration must be given to the need for working capital and the substantial expenditures covering sinking fund payments on the mortgage bonds and the preferred stock which is also entitled to $4.25 cumulative dividends per annum. The common stock must be regarded as highly speculative.

From the point of view of the stock market, meat packing shares have been notoriously speculative for a number of years. Their cyclical character is well illustrated by individual price movements; for example, Armour common has not been able to sell much above 10 since 1951; Cudahy Packing has not been able to do even as well and has been selling at a few dollars a share for some years; Wilson common has performed approximately the same. Two issues in this group which have retained comparatively good investment rating are: Hormel and Swift. Hormel which has paid dividends since 1928 has held very steady in the past several years in the 42-45 level, a remarkably steady performance. Swift has also been a comparatively stable issue, selling in the thirties. In respect to market stability, Hormel has been the superior.

The general characteristic of the meat packing industry is the extremely low profit margin on a per unit basis. Since the companies often have no control over important factors influencing earnings, profit margins are apt to become highly vulnerable. For this reason, most packing stocks, with the possible exception of the two mentioned, are not suitable for inclusion in the portfolios of the average investor.

In this respect, they contrast rather sharply with concerns in industries more or less allied to meat-packing. For example, food processors, and dairy companies have a more stable record as to both profit margins and net income available to stockholders. Accordingly, these latter two groups offer better opportunities, on the whole, for investment.

A New Set-Up for "WOOLEN"?

By JOHN D. C. WELDON

Two years of substantial deficits and an unhealthy decline in working capital have finally brought the management of American Woolen Co. face to face with its fundamental problems. This is a belated recognition spurred by mounting dissatisfaction on the part of the company's stockholders.

Basically, the trouble with American Woolen arises from its complete dependency on a single product. Because of its lack of diversification it is at the mercy of conditions when demand in its particular field is on the ebb, a state of affairs that has been aggravated by the appearance of other fabrics in the synthetic group displacing wool in many of its established markets. Moreover, the company has been at a disadvantage because of its inability to compete with better organized woolen manufacturers with mills located more advantageously in the south and that are able to operate on lower wage scales than those prevailing in the northern states.

Although present management, upon taking over a little more than three years ago, began looking southward, opening a yarn mill at Louisville, Ky., a woolen and synthetic fabrics mill at Raleigh, North Carolina, and the Tifton, Ga., woolen mill, it continued to center the greater part of operations at high-cost northern plants. At present, nine of these northern mills are shut down. Included in the idle group is the Assabet mill, the largest woolen mill in the world, and this soon will be joined by two more plants, one being the great Wood plant, American Woolen's one-time pride and joy. Under the conditions that have been confronting American Woolen, these idle plants have become white elephants, costing the company in maintenance, depreciation, taxes and insurance, more than $2 million annually, and producing nothing.

American Woolen management realizes that since no improvement in the basic conditions under which the company operates is in sight the time has come for a complete reorganization. To this end, it proposes ridding the company of its uneconomic plants; simplifying the capital structure by retiring the $4 Prior Preference stock which is callable at any time at $105 and accrued dividends, and the purchase of the 7% Preferred stock, which is not callable, at $100 a share, plus accrued dividends. Management believes that retiring these two preferred issues would be a constructive step in simplifying the capital of the company, conforming it to the company's needs and reducing or eliminating dividend priorities of more than $1 million a year ahead of the common stock.

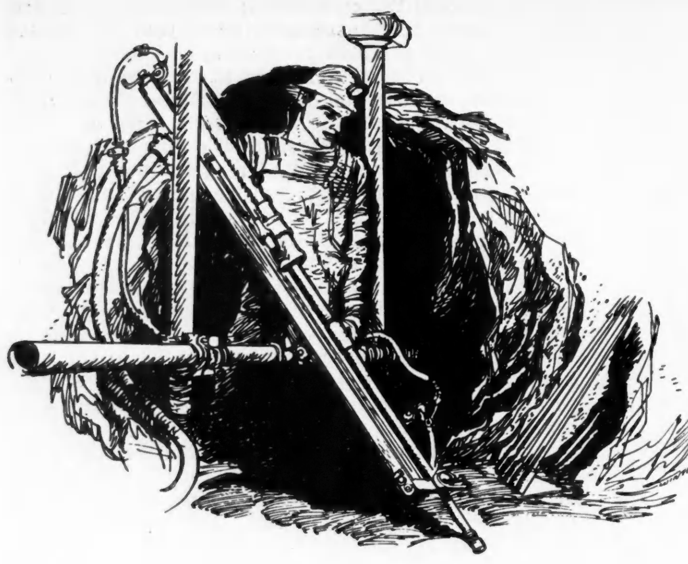
At first glance, the plan seems feasible. To relieve the company's operations and finances of the burden of the "uneconomic plants that are not needed for current or projected output," segregation is proposed. They are then to be turned over to a wholly-owned subsidiary to be disposed of in the best interests of the company. The difference between the value at which American Woolen would carry the subsidiary, namely, the estimated disposal value of the properties to be transferred to it, and the book values of such properties, would be charged against Woolen's earned surplus. To call the $4 Prior Preference stock for retirement would cost approximately $10.6 million, of which all but about one-half million would be a reduction of capital and the balance a charge against earned surplus. Another $8.9 million would be required to purchase all of the 7% Preferred stock, and would reduce the company's capital by that amount.

All together, approximately $19.8 million would be required to carry out the proposal to retire both issues of preferred stocks. This sum, in the opinion of management, can be accumulated by March 15, the date of the proposed redemption and purchase of the two issues, from holdings of cash and Government bills due on or before March 1, 1954 amounting to approximately $11.4 million, $7 million in tax refund, to which total *(Please turn to page 587)*

Post-War Record of American Woolen Co.

	Current Assets	Current Liabilities	Working Capital	Ratio Cash & Equiv. to Current Assets %	Earnings Per Share
	(Millions)				
1946	$ 78.5	$ 21.9	$ 56.6	15.8%	$ 21.86
1947	88.5	29.0	59.5	12.8	15.29
1948	90.3	30.5	59.8	8.1	15.88
1949	73.6	16.1	57.5	10.4	1.18
1950	111.0	49.7	61.3	9.0	4.39
1951	111.9	46.5	65.3	9.1	9.22
1952	56.7	4.3	52.3	12.6	(d) 7.39
1953	49.4[1]	2.8[1]	46.6[1]	14.1[1]	(d) 7.47[2]

(d)—Deficit.
1—As of October 31, 1953.
2—10 months ended October 31, 1953.



Future of......

Canadian Gold Stocks

By J. C. CLIFFORD

Canadian gold producers, as far as profits are concerned, attest the truth of the maxim, "all is not gold that glitters."

The shares of these mining companies that at one time glittered so brilliantly in the eyes of some speculators have lost much of their lustre. Current prices for the various issues in the group are at or close to their absolute lows in several years. The comparatively well-positioned McIntyre Porcupine, operating the second largest of the Porcupine district gold mines sold at 83½ in 1952 and now hovers in the market around 55½. Dome Mines, one of the largest of the Ontario gold producers, is currently selling at about 15, in contrast to 24 recorded less than two years ago. Hollinger Consolidated, for years one of the biggest of the Canadian group, is presently selling around 12½, fractionally above its 1952-54 low of 11⅞, and in contrast to a 1952 high of 18⅜.

Gold mining companies have been the victims of inflation. Rising materials costs, higher power and freight charges, and spiraling wage scales from a combination that has thinned earnings from gold production almost to the vanishing point. This is the situation notwithstanding the aid granted the companies through the Emergency Gold Mining Assistance Act. Adding to their tribulations in 1953 has been a more or less general strike of mine workers that began in the latter part of September of that year and continued in some instances to late December and early January, 1954. Settlements were made, based on proposals of the Ontario Government. Agreement, providing a five-cents an hour wage increase with new contracts have a life of 18 months.

No Increase in Subsidy Assistance

There has been some hope that the Canadian Government would liberalize its subsidy assistance, but as yet nothing has developed along these lines and the prospects of such action on the part of the authorities in the Dominion are, at best, dubious. Meanwhile, the price of gold continues to slip, falling from $38.50 an ounce that held for about six years from 1941 to 1946, to under the United States price of $35 an ounce. In some circles there has been belief expressed that the price of gold would be boosted above the $35 an ounce level. This is more or less wishful thinking, nurtured by the fact that there are several bills touching upon the gold situation awaiting hearings before the Senate Banking and Currency subcommittee. Two of these bills would authorize a free market for the metal, and another would restore the United States monetary system to specie payments and make provision for convertibility of currency into gold. The latter bill would have no bearing on the official price of gold, but it is thought by some that its enactment would open the doors to advocates of a higher official price, a free market, or other subsidy innovations. The strongest argument against an upward adjustment in the official price would be that such a move would stir up inflationary forces. Opposition to such a move was clearly expressed at the September 1953 session of the governors of the World Fund when W. Randolph Burgess, Deputy to the Secretary of the Treasury, stated it was his department's firm belief that a change in the price of gold would disrupt the efforts being made in other countries to restore stable currencies.

Meanwhile, the basic handicaps—rising operating costs and a lower selling price for gold—continue to beset the Canadian gold producers. There appears to be no tangible evidence that any amelioration is likely during this year at least, and it is difficult to discern any ground on which to base expectation that 1954 earnings will be substantially improved over the last calendar or fiscal years' showings.

The filip to the interest in Canadian gold shares is in the possibility that properties, other than gold mines, acquired in recent years, and which are now under development may be profitably developed.

Dome Mines Limited, for instance, continuing a policy established some years ago, has been acquiring interests in diversified natural resource properties other than gold for long range protection of its treasury assets. Among these are a substantial holding in the Mindamar Metals Corp., a zinc-lead-copper

property where milling operations got under way in April, 1952, and in Dome Exploration (Western) Ltd., an operating oil company with proven and potential oil and natural gas acreages in the Redwater and other fields in Alberta, as well as in Manitoba, Saskatchewan and Northeast British Columbia.

A highlight of Dome's activities in 1952 was its 59%-owned Campbell Red Lake Mines, a gold producer in the Red Lake area of Ontario embarking on a dividend career with an initial payment of five cents a share. This payment was duplicated in July, 1953, contributing, in each instance, approximately $113,000 to Domes' income. Sigma Mines Ltd., 69% owned by Dome, and which has developed into one of the more important Canadian gold producers, again paid 40 cents a share in dividends last year, adding approximately $276,000 to Domes' non-operating income. This rate is expected to hold through 1954, a semi-annual disbursement of 20 cents a share having already been made in January, and there is a likelihood that for this year Campbell Red Lake Mines might improve on its 1953 payout of five cents a share, thus bolstering Domes' quarterly dividend rate of 17½ cents a share on its own stock.

In its 1952 balance sheet, Dome indicated cost of its investments in subsidiary and affiliated companies at $5.2 million. As of January 18, 1954, market value of these investments was approximately $34.5 million. It is this large investment value that Dome shares at recent price of 15 appears to reflect, accounting for the comparatively low 4.6% return on current dividend rate. Giving weight to the long-term speculative possibilities, the stock is worthy of retention.

Hollinger Consolidated: For years, Hollinger held first place as a Canadian gold producer, its comparatively low operating costs enabling it to show net earnings well over $1 a share annually, to sustain a dividend record that with the exception of the 1916 omission, goes back to 1912. The ravages of increased operating costs, including higher wage rates, however, have cut deeply into earnings every year in the past decade, per share earnings falling from 91 cents in 1942 to 20 cents for 1947. Net for 1952 equaled 39 cents a share but this was achieved through a gold price of about $34.28 an ounce and with the aid of $798,912 from the Canadian Government under the Emergency Gold Mining Assistance Act. It is doubtful, however, that 1953 results matched this showing. Operations were hampered in the final half of the year by a miners' strike that started on September 25, and continued for three months to December 26.

Hollinger, sometime ago, began casting about for other properties. Through subsidiaries, it acquired extensive mining concessions in Quebec and Labrador on which development work has opened up iron ore deposits. Total indicated tonnage on the Labradore property at last reports were estimated at approximately 137 million long tons, with better than 281 million long tons indicated on the Quebec holdings. According to present plans, the first shipments of iron ore are expected to go forward sometime this year. Earnings potential from this source give Hollinger's shares, which are generously priced on the basis of earnings from gold operations alone, a speculative appeal that justifies long-term retention of present holdings, even though the current six cents a share quarterly dividend does not appear secure.

Lake Shore Mines: Based on the showing for the first nine months of 1953, net for the full 1953 year probably approximated 19 cents a share. This is something of an improvement over the seven cents a share reported for the previous year when operations were adversely affected by damage to underground workings caused by rock-bursts. There appears to be no reason, however, to look for any material improvement in 1954 earnings over those estimated for last year. Dividend payments which lapsed in the final quarter of 1952 were resumed with the declaration of 10 cents a share in December of last year, but in view of the need for liquidity to push further exploratory work on the lower levels of the mine, it is reasonable to believe that there is no immediate prospect for the stock being restored to the old 30 cents a share annual basis. The company which has been participating through its equity in a small company exploring for oil and was in Western Canada, has broadened its oil interests by acquiring a one percent equity in Oilwell Operators, Ltd. The shares of Lake Shore must be regarded as speculative based on the ability of the company in opening up profitable ore bodies in the lower workings, or on the success of its ventures in oil.

McIntyre Porcupine Mines, operating the second largest gold mine in the Porcupine district has a relatively consistent record of earnings which is aided by substantial revenues from its large investments in Government and other marketable securities of companies in diversified industries. As of March 31, 1953, McIntyre carried these investments at $17.8 million, the market value as of the same date being $41.7 million. It holds an 80% interest in Belleterre Quebec Mines, Ltd., a gold producer, and an 83.5% interest in Castle-Threthewey Mines, an Ontario silver producer *(Please turn to page 583)*

Statistical Data on Leading Canadian Gold Shares

	Tons Milled (Annually) (Thous.)	Recovery Value Per Ton	Costs Per Ton	Annual Production (000 Fine Ounces)	Net Per Share 1951	Net Per Share 1952	Net Per Share 1st 9 Mos. 1953	Div. 1953	Div. Yield	Recent Price	Price Range 1952-1953
Dome Mines	515[4]	$ 8.41[4]	$ 7.76[4]	125[4]	$ .81	$ .75	$ .52	$ .70	4.6%	15	24 -13⅞
Hollinger Consolidated	1,179[5]	9.79[5]	8.43[5]	n.a.	.30	.39	n.a.	.24	1.9	12½	18⅜-11⅞
Lake Shore Mines	177[4]	13.16[4]	13.07[4]	87[4]	.46	.07	.14	.10	1.6	6	12¾- 5⅜
McIntryre Porcupine	769[3]	9.54[3]	8.75[3]	214[3]	3.21	3.02	1.50[1]	3.00	5.4	55½	83½-52
Pioneer Gold	88[3]	15.53[3]	16.43[3]	45[3]	.20	.13	.07[3]	.10	6.6	1½	2⅞- 1¼
Wright-Hargreaves	191[2]	15.27[2]	11.60[2]	82[2]	.14	.12	.12[2]	.14	7.0	2	3¼- 1⅝

n.a.—Not available.
1—6 months ended Sept. 30, 1953.
2—Year ended August 31, 1953.
3—Year ended March 31, 1953.
4—1st 9 months 1953.
5—Year ended Dec. 31, 1952.

Year-End Corporate Statements

PART I

By WARD GATES

—*And First Quarter Trends*

Year-end corporate statements at hand indicate (1) that profits for 1953, on average, were moderately higher than in 1952, with conspicuous exceptions and (2) that profits for the final quarter were on a par with those of the third quarter and, in numerous cases, exceeded it. The actual trend in the fourth quarter is obscured by the usual year-end adjustments which many corporations elect to make in that period. However, on face at least, the average showing for the final quarter may be considered satisfactory in comparison with third quarter results which were somewhat below those of the second quarter. Apparently, the over-all lower level of production and employment in industry in the final half of the year have not been reflected in corporate profit statements as yet.

The table herewith which will be substantially augmented in the second part of this analysis of corporate earnings and which will appear in the succeeding issue, is fairly representative of profit trends among manufacturing concerns. Two features are the gain in sales as between 1952 and 1953 for approximate retention of profit margins, although there have been many variations in the latter.

The observations in the above are tentative and subject to amendment as additional year-end statements become available. A more extensive review of corporate earnings trends, accordingly, will appear in the second installment of this analysis. In the meantime, comments on several of the more important corporate statements just issued are presented in the following:

International Harvester Co. Considering the problems in the farm implement industry created by the drop in farm prices, International Harvester came through in 1953 with a comparatively good report. This result was achieved through greater diversification rendering the company less dependent on fluctuations in demand from the farm areas. The president has just stated that operations are being stabilized through greater sales of various products in urban areas. According to the 1953 statement, sales of farm tractors and parts, and farm implements amounted to less than 50% of the total, the rest going to motor trucks and parts, industrial power equipment, refrigeration products, steel and miscellaneous products. For the fiscal year ended Oct. 31, 1953, sales were $1,256 million compared with $1,234 million the previous year. The bulk of the increase was due to higher sales of defense products which amounted to $233.8 million as against $173.7 million. Net profits per share were $3.46 compared with $3.76 in the 1952 fiscal year. Of 1953's profits, $3.8 million, or slightly less than 30 cents a share was accounted for by a carryover, representing unused excess profit credits. An additional 14 cents a share was accounted for by an increase in dividends from subsidiary companies. A large part in the relatively sustained net earnings—as compared with 1952—was due to a drop in federal income taxes of from $59.6 million to $36.1 million. Profits on a quarterly basis showed a tendency to increase in the final half of the year, as indicated in the table. Some decline in sales, however, is probably to be expected during the next few months but cushioned to some extent by smaller tax liabilities. The fifty-cent quarterly dividend should be covered, without much trouble.

Rayonier, Inc. earnings results for this company were satisfactory in view of the fact that basic demand for products is accounted for by the textile industry, which operated well under capacity in 1953. The showing is also creditable considering active competition in cellophane and other cellulose products. Net income for the year amounted to $10.6 million compared with $10.9 million the previous year. A $5 million drop in sales, or from $78.2

million to 73.3 million was offset by a reduction in taxes of approximately the same amount. After other adjustments, earnings per share were $4.72 compared with $4.90 in 1952. Net profit margin increased in 1953, from 14.0% to 14.5%, indicating good cost control. Quarterly profit margins were remarkably uniform, with the exception of the second quarter when they rose to 15.4%, compared with 14.2% for each of the other three quarters. A significant feature is that these results were obtained with production at only 85% of capacity. Basically, the outlook depends on conditions in the textile industry although cellulose production for supply to manufacturers of cellophane is also important, as the latter absorbs 20% of the company's capacity. In line with some other industries, Rayonier's profits for the fourth quarter of 1953 were in a moderately declining trend and amounted to $1.09 a share compared with $1.26 a share in the preceding quarter. Indications are that first quarter 1954 results on a per share basis will more closely approximate those of the final quarter of 1953 than the more substantial third quarter.

Republic Steel Corp. For the first time in its history, Republic Steel passed the $1 billion mark in sales. In the fourth quarter alone, sales were over $340 million. Net income for the year amounted to $54.7 million, compared with $44.2 million in 1952, when the steel strike halted operations. Earnings on a per share basis held quite steady for each quarter, ranging from $2.22 in the final quarter and for the full year amounted to $9.25 a share compared with $7.21 in 1952. Profit margin for each of the first three quarters averaged about 4.8% and increased to 5.7% in the fourth quarter, probably due in part to savings from elimination of over-time costs at the same time that the volume of sales increased. Income taxes for the year were $80.3 million, of which excess profits taxes were $20.2 million. The latter item was equivalent to a charge against income of approximately $3.40 a share on the common. It is obvious that the elimination of this tax will play a large part in Republic's profits for next year either as a substantial savings for stockholders if total gross profits remain within the scope of former liability to EPT, or as an actual cushion to earnings if business should fall off. The customary year-end layoff for the purposes of repair work has been completed and normal resumption of operations is proceeding. A somewhat lower production rate for the first quarter is anticipated for this and other steel companies.

Firestone Tire & Rubber Co. This company, in line with other important concerns in this field, concluded a brilliant year in the fiscal period ending Oct. 31, 1953. Sales totalled $1,029 million against $965 million the previous year. Net income rose during this period from $43.0 million to $46.7 million, equivalent to $11.77 a share and $10.89 a share for the respective years. On the higher sales, net profit margin advanced from 4.4%, the previous year, to 4.5%. Profits increased in each quarter, rising from $2.47 a share in the first quarter to $3.56 a share in the final period. This is reflected in successive increases in net profit margin which rose from 4.1% in the first quarter to 5.0% in the final quarter. Minimum expectations for next year, according to company officials, are for operations around 94% of capacity compared with 104% rate in the past fiscal year but this is expected to be accompanied by greater efficiency in operations. Present profits are at unusually high levels and cannot be expected to be maintained in view of uncertainties regarding the automobile industry. On the other hand, replacement demand for both passenger and truck tires gives strong support. Reduction in sales and profits should be moderate, with dividends well covered.

Bendix Aviation Corp. (*Please turn to page* 584)

Comparative Sales, Earnings & Net Profit Margins of Leading Companies

	Net Sales 1953 (Millions)	Net Sales 1952 (Millions)	Net Profit Margin 1953 %	Net Profit Margin 1952 %	Net Per Share 1953	Net Per Share 1952	Net Per Quarter 1953 1st	2nd	3rd	4th
Armour & Co.	$2,088.8	$2,184.0	4.9%	3.2%	$ 1.81	$ 1.00	$ .27	$ .75	(d)$ .16	$ .96
Bendix Aviation	638.5	508.7	2.7	3.0	8.20	7.22	1.83[2]	2.23	1.90	2.24
Celotex Corp.	59.9	52.0	5.0	3.1	3.05	1.49	.50	.67	.91	.97
Chain Belt	41.0	37.5	5.9	5.6	4.02	3.69	.88	1.39	1.02	.86
Douglas Aircraft	874.4	522.6	......	2.0	15.50	8.99	3.66	4.71	2.73	4.41
Dresser Industries	129.0	127.3	3.9	4.5	3.80	4.28	.47	.64	1.27	1.41
Firestone Tire & Rubber	1,029.4	965.3	4.5	4.4	11.77	10.89	2.47	2.85	2.90	3.56
General Shoe	111.1	104.2	3.2	3.2	4.19	4.11	.91	1.12	.87	1.31
Glidden Co.	211.7	205.1	3.3	3.3	3.10	3.04	.61	.75	.66	1.08
International Harvester	1,256.1	1,204.0	4.1	4.6	3.46	3.76	.72	1.00	.85	.90
Lee Rubber & Tire	46.3	45.3	3.6	3.9	6.01	6.66	1.49	1.59	1.65	1.29
Lukens Steel Co.	97.8	69.6	3.6	3.3	11.35	7.29	2.44	3.64	4.01	1.27
Marathon Corp.	112.1	104.8	5.2	7.7	1.55	2.18	.32	.41	.41	.41
Minneapolis-Moline	105.6	92.5	2.0	4.8	1.71	4.31	(d) 1.15	1.65	.55	.65
Monsanto Chemical	340.6	266.7	7.7	8.5	4.90	4.29	1.08	1.43	1.15	1.25
Rayonier Corp.	73.3	78.2	14.5	14.0	4.72	4.90	1.18	1.18	1.26	1.09
Republic Steel	1,137.1	918.4	4.9	4.8	9.25	7.21	2.26	2.46	2.31	2.22
Stevens (J. P.) & Co.	334.5	387.1	2.7	2.3	2.35	2.27	.58	.51	.63	.63
Ward Baking	96.1	92.1	2.8	2.3	3.12	2.36	.41	.78	.79	1.14
West Virginia Pulp & Paper	117.6	108.9	9.1	8.6	2.83	2.47	.45	.70	.76	.91
York Corp.	87.1	60.5	3.4	4.0	2.73[3]	2.17	.48	1.29	.65	.31

(d)—Deficit.
1—Net for irregular periods.
2—Fiscal year ends Sept. 30: 1st quarter—Dec. 30, '52.
3—Fiscal year ends Sept. 30.

FOR

PROFIT AND INCOME

Penetration?

As this is written the Dow industrial average has risen to a level less than 1½% under the bull-market peak recorded over a year ago; and after an impasse for some weeks the rail average has finally extended the recovery begun last September by rising moderately above its rally high of early December. A "penetration" of the old high by the industrial average would have no major-trend implication without a breakthrough also by the rail average; and the latter is still a goodly distance away from any such hypothetical test. Indeed, any bull-market "confirmation" under Dow Theory would have nothing to do with the old highs. As the record stands, the 1949-1953 bull market terminated at those highs. A bear market began therefrom and ran at least into September. Whether it ended at the September lows has yet to be indicated. If so, we are now in a new bull market, not a resumption of the old one. Dow-Theory "confirmation" of a new bull market requires the following sequence: (1) a substantial sell-off of at least several weeks duration from whatever highs are recorded by the present upswing; (2) termination of such sell-off above the September lows; (3) rise by both averages above the prior highs of the post-September upswing. Rails met requirement No. 2 by a considerable four-week sell-off in December; and have met requirement No. 3 by rising above the December 1 high. The industrial average, however, has had only minor reactions in its post-September rise to date. Regardless of any such trend theorizing, this is a market of stocks. Some stocks are in their own bull markets, whether old or new; some in their own bear markets; others showing no trend either way.

Stock Groups

Among the stock groups performing best so far in January are aircrafts, aluminum issues, distillers, the paint section of the building materials group, confectionery, glass containers, electrical equipments, biscuit-baker stocks, food brands, meat packing, office equipment, paper, food-store chains, movies, natural gas and electric utilities.

Strong

Stocks showing exceptionally good demand as this is written include Addressograph, Aluminum Company, Beatrice Foods, Beneficial Loan, Anchor Hocking Glass, Briggs & Stratton, Carrier, Commonwealth Edison, Corning Glass, Distillers Corp.-Seagrams, Florida Power & Light, Boeing, Douglas Aircraft, General Mills, Houston Lighting & Power, Haliburton, Libbey-Owens-Ford Glass, Eastman Kodak, National Lead, Scott Paper, Pfizer, Hiram Walker, National Tea, Minneapolis-Honeywell, Pitney-Bowes, Texas Company, Shamrock Oil & Gas, Twentieth Century-Fox, Sterling Drug, and Westinghouse Electric. On the other side of the picture, fewer stocks have recorded new lows so far in January than in many months. This reflects relief from previous tax-selling pressure, as well as improvement in general-market performance. However, it is probable that in no great time the number of strong and weak stocks will come into closer bal-

INCREASES SHOWN IN RECENT EARNINGS REPORT

		1953	1952
Chicago R. I. & Pac. R. R.	11 mos. Nov. 30	$14.50	$11.72
Illinois Central R. R.	11 mos. Nov. 30	17.60	14.39
Grand Union Co.	Quar. Nov. 28	.82	.59
Cornell-Dubilier Electric	Year Sept. 28	3.12	2.86
General Telephone Corp.	12 mos. Nov. 30	4.46	3.62
Wesson Oil & Snowdrift Co.	Quar. Nov. 28	.77	.46
General Instrument Corp.	9 mos. Nov. 30	1.41	1.13
Loew's Inc.	12 weeks Nov. 26	.22	.06
Heinz (H. J.) Co.	6 mos. Oct. 28	1.94	1.63
General Mills	6 mos. Nov. 30	2.18	1.75

ance, as was so during most of 1953.

Oils

After the mildest December in many years, January has been on the cold side in much of the country, up to this writing. As a result, excess inventories of fuel oil have been reduced considerably. This is favorable to the oil industry, even though gasoline inventories have reached record level. The reason is that fuel oil, if not sold during the heating season, must be carried to the following heating season; whereas gasoline can be sold throughout the year. Excess gasoline stocks, around the end of the heating season, would be less of a threat to full-year earnings than would excess of both gasoline and fuel-oil stocks. Of course, a few weeks of cold weather cannot tell the story. A mild February or March would undo the benefit of cold January weather. What is required to keep the industry "out of the soup" is normally cold weather, on average, from here through March, plus at least moderate further curtailment of refinery runs. The present consensus of opinion is that 1954 earnings will be "a little" under those of 1953, but probably will not be down as much as total business profits. That looks like a reasonable projection –if February-March weather does not seriously aggravate inventory imbalance. It is evident that the flow of institutional money into many leading oil stocks has been resumed, with the managers of these funds taking the longer view and not putting much emphasis on the possible degree of 1954 shrinkage in oil profits. In the postwar period into late 1952 oil stocks widely outgained the general market. They subsequently fell slightly more than the market; but have now recovered slightly more than the industrial list since last September. Relative to the prewar level (1935-1939 average) oil shares generally are about twice as advanced as the industrial list. Changes in relative market position of the group, either way, should be fairly moderate from here on.

General Motors' Expansion

General Motors is a smart company in every way, including its handling of publicity. Its $1-billion "expansion program" for 1954-1955 makes good reading. There is more behind this than meets the superficial eye. Much of this outlay will be for facilities with which to make more parts, taking business from previous outside suppliers; and for otherwise improving over-all efficiency and control of costs. GM is already the most strongly integrated company, with a profit margin much wider than other companies. The $1-billion program is a vote of confidence in the future of American business and of General Motors – but also a program of preparing further for the competitive "battle of the century" with Ford. The "also-rans" are going to get hurt. Those who fail to make a come-back via radically improved 1955 cars may be really out of luck. Compared with those expected for 1955, the 1954 model changes are restricted in most cases.

Nash-Hudson

It may be mainly a question of semantics whether the Nash-Hudson merger into American Motors doubles the strength of the two companies, or doubles their weakness or leaves the essential position about what it was. In car production, they do not complement each other in more than minor degree. Excepting the Nash Rambler in the low-priced field, most Nash and Hudson models were directly competitive. Both companies had adequate working capital. Neither had more than a small fraction of the total automobile market. This is the central question. Whether American Motors' share of the market will be bigger than the previous shares of Nash and Hudson on a combined basis is doubtful.

Tires

Some of the leading tire stocks look low on earnings, high on dividends. Goodrich sells about 10 times estimated 1953 net of $8 a share at 80, to yield 4% on a $3.20 dividend. Classed as a growth stock, this issue is the most highly valued marketwise among the Big Four. All of the other three, however, exceed Goodrich in sales. Goodyear leads in sales. At 56 it is priced at less than 6 times probable 1953 net around $10 a share, yielding less than 5.4% on a $3 dividend. Second largest in sales, Firestone is priced at 66, less than 6 times net of $11.77 a share in the fiscal year ended last October 31, yielding about 5.6% on total 1953 dividends. Third largest in sales, U. S. Rubber is priced at 31, roughly 6 times estimated 1953 profit of $5 a share, yielding about 6.4% on a $2 dividend. Whether Goodrich is worth the indicated premium in price-earnings ratio and yield, as compared with the others, is difficult to tell with exactitude. Stated earnings in all cases are after conservative reserves. Stock holders have not been treated generously, payouts in latest years being around 40% of earnings of Goodrich and U. S. Rubber, 30% or so of those of Goodyear and Firestone. Earnings will be lower this year, but not significantly so. Goodrich, Goodyear and U. S. Rubber are heavily cushioned by EPT lapse. They could pay more in dividends; and it is possible that they will, with Goodyear and Goodrich perhap the best bets in this respect.

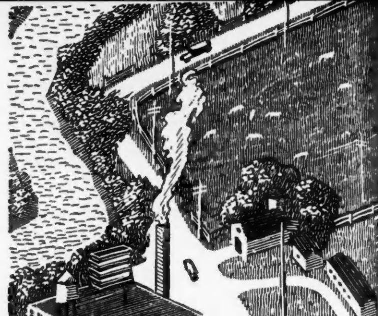
Depressed

Among the many relatively depressed stocks, there may be worthwhile speculative possibilities over a reasonable period of time in Lion Oil and Loew's, Inc. Although small as oil companies go, Lion has two points in its

(*Continued on page* 587)

DECREASES SHOWN IN RECENT EARNINGS REPORT

		1953	1952
New York, Chic. & St. Louis R.R.	Year Dec. 31	$ 7.70	$ 8.16
Lehn & Fink Products	6 mos. Dec. 31	1.33	1.88
Dow Chemical	Quar. Nov. 30	.30	.42
McCord Corp.	Quar. Nov. 30	.48	1.19
Gleaner Harvester Corp.	Quar. Dec. 31	.02	.18
Kaiser Aluminum & Chem.	Quar. Nov. 30	.05	.17
Virginian Rwy.	11 mos. Nov. 30	2.74	3.70
American Distilling Co.	Year Sept. 30	1.83	2.81
Atlantic Coast Line R.R.	11 mos. Nov. 30	13.40	16.05
Consolidated Textile Co.	Quar. Nov. 28	.01	— .11

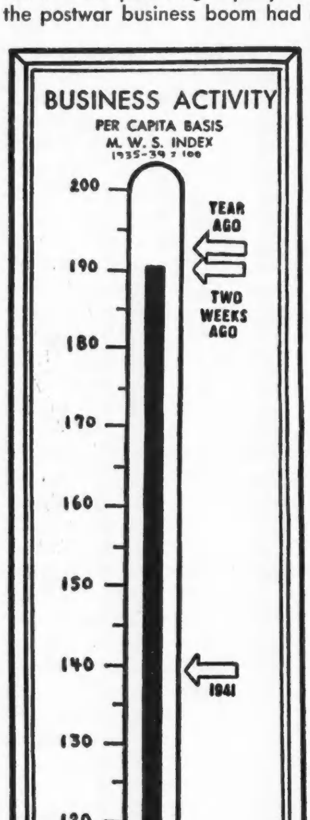


The Business Analyst

What's Ahead for Business?

By E. K. A.

Business sentiment has registered some improvement during the past few weeks. During the closing days of 1953, the belief was spreading rapidly that the long heralded end of the postwar business boom had arrived and that 1954 would be a year of recession, possibly deepening into depression by 1955. Now, within only a few weeks, the majority of business men appear to have swung around to the belief that this will rather be a year of "rolling adjustments" for a number of industries, with the average level of business activity slightly below the record high attained in 1953.



Unquestionably, the underlying note of optimism in official Washington circles and evidence that the Administration is prepared to take a strong stand against recession through the use of counter-inflationary measures, if necessary, have played a part in alleviating the fears of the business community of a down-spiral in the economy. At the same time, there is no doubt about the fact that there has developed a considerable tendency to play down the unfavorable developments in the situation and give prominence to the favorable developments, influenced by the rather popular belief that talk of recession engenders recession and vice versa.

Thoughtful business men and investors are finding it somewhat difficult, in view of the numerous cross currents in the economy, to determine just where we are, let alone determine where we may be going. The current figures on steel mill activity, considered by many as the bellwether of industry generally, show operations to be down more than 25 percent since last Spring. Automobile production, on the other hand, recently has been stepped up to slightly better than the levels of a year ago. While unemployment is increasing slowly and the gentle decline in industrial activity since last Summer is showing no signs of coming to a halt, retail trade volume is being maintained at the high levels of a year ago.

The general wholesale commodity price level, ordinarily very sensitive to the approach of ups and downs in business activity, has been displaying much of the same type of stability that characterized its action throughout most of last year. The securities market, another sensitive barometer, spent most of January in regaining its late 1953 losses. There are some, of course, who maintain that strength in these two most generally accepted indicators during January is a seasonal phenomenon and that it even occurred in January of 1930 and 1938. However, the general opinion among business men and investors is that, if these markets are displaying no weakness in the face of the vast amount of recession talk going the rounds, there can be no great amount of fundamental weakness in the general economic situation.

On the other hand, selling of goods and services of practically all kinds has become tougher, both as a result of the very slight contraction in consumer income since last Fall and as consumers' appetites for price markdowns have been whetted by the moderate amount of retail price cutting during recent weeks. In soft goods lines, business generally is brisk at the lower prices offered and the volume of retail turnover continues large. In clothing and footwear, the mainstays of soft goods business, the trend of production now has been downward for six months or more and it is apparent that surplus inventories—accumulated as a result of overproduction during the first half of last year—have been largely liquidated. That would seem to put the soft goods industries in a position to obtain more remunerative prices for their products in response to improved demands, which should be developing within no more than a very few (Please turn to page 586)

The Business Analyst

HIGHLIGHTS

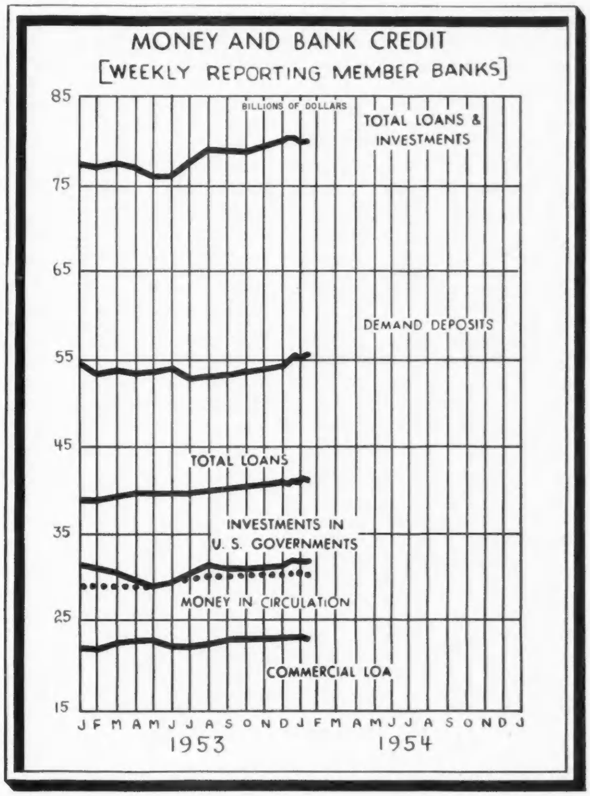
MONEY & CREDIT — A vigorous investment demand for fixed-income securities is still making itself felt in the bond market and this has been reinforced by the nature of recent developments. These include a light new issue calendar which has not made much of a dent in available funds and the buttressing of indications that the Federal cash budget will be in virtual balance for both fiscal 1954 and 1955. If this balance is actually achieved the large Treasury new money offerings which were quite a drain on the market early last year, will be a thing of the past.

Another trend that is encouraging investors is the decided dip in bank loans to business which has taken place of late. Commercial, industrial and agricultural loans made by weekly reporting member banks dropped by $542 million in the first two weeks of 1954, one of the largest declines on record for this short space of time and far exceeding the usual contraction of loans that occurs in the early weeks of a new year. The current drop in loans is mainly a reflection of the inventory liquidation that is going on as businessmen strive to bring their stocks into line with sales, a trend that has been proceeding for some time and was mirrored in the less than seasonal rise in loans which became apparent in the late months of last year. Meanwhile, the Federal Reserve System, which can expand or contract credit as it wishes, has thus far not taken any steps to absorb the excess bank reserves which have become available and the banks thus have additional funds on hand for investment.

Investors have not been slow to realize the significance of these developments and as a result, rising prices and a concommitant fall in yields have been the order of the day. In the first three weeks of the new year, the Treasury's Victory 2½s, for instance, have gained 1⅜ points while the thirty-year 3¼s were up ⅞. Corporate bonds have had similar improvement and the yield of a representative average of best-grade corporates stood at 3.06% on January 21, versus 3.12% at the end of December. Current yields are not far from those prevailing a year ago and indicate that the price decline of the first half of 1953 has been virtually recouped.

Late news has brought announcement of the largest Treasury refunding in history involving $20.8 billion of obligations. In general, the refinancing attempts to secure conversion of a good part of this maturing or called debt into an intermediate term security, thus continuing the Treasury's drive to stretch out the debt.

TRADE — Retail sales slackened in the week ending Wednesday, January 20, and Dun & Bradstreet estimates that dollar volume throughout the nation was about 1% under that of the corresponding 1953 period. This is in contrast to prior weeks which had been topping year-ago results. Best showing was achieved in the Southwest with a 3% gain over last year while New England and the Eastern states did poorly with a 3% decline. However, inclement weather played a part in this dip. Consumer interest in apparel has dwindled somewhat but food stores are doing well, with supermarkets accounting for a growing share of the total in this field. Demand for household goods is holding up, assisted by the impetus derived from continued clearance sales.



INDUSTRY — Industrial production has been stable in the first half of January and the MWS Index of Business Activity, on a per capita basis, stood at 191.3 in the week ending January 16, as against an average of 190.4 in December. Electric power production has picked up strongly and paperboard output has also improved. Steel ingot production was still low at 74.3% of capacity but was above last year's low of 64.1% reached in the December 26 week. Actually, the latter figure is over-stated when compared to current output data, as it is based on capacity at the end of 1952. Capacity in the past year has increased by 8.3% and current figures use the larger capacity as 100%.

COMMODITIES — The general run of commodities marked time in the week ending Tuesday, January 19, and the Bureau of Labor Statistics Index of primary prices remained unchanged at 110.9% of the 1947-1949 average. At this level it was 0.9% ahead of a year ago. Farm products had a nominal decline of 0.1% in the latest week as the result of lower prices for steers and some fruits and vegetables. Meat prices rose slightly while all commodities other than

(Please turn to following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Dec.	4.1	3.7	4.4	1.6
Cumulative from mid-1940	Dec.	533.8	529.7	480.7	13.8
FEDERAL GROSS DEBT—$b	Jan. 20	275.2	274.9	267.3	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Jan. 13	56.0	55.3	54.8	26.1
Currency in Circulation	Jan. 20	30.1	30.3	29.7	10.7
BANK DEBTS—(rb3)**					
New York City—$b	Dec.	54.0	54.3	52.1	16.1
344 Other Centers—$b	Dec.	91.5	91.7	90.4	29.0
PERSONAL INCOME—$b (cd2)	Nov.	285	287	277	102
Salaries and Wages	Nov.	194	196	188	66
Proprietors' Incomes	Nov.	50	50	50	23
Interest and Dividends	Nov.	23	23	21	10
Transfer Payments	Nov.	14	15	13	3
(INCOME FROM AGRICULTURE)	Nov.	17	17	18	10
POPULATION—m (e) (cb)	Dec.	160.9	160.7	158.2	133.8
Non-Institutional, Age 14 & Over	Dec.	112.1	112.0	110.9	101.8
Civilian Labor Force	Dec.	62.6	63.4	63.3	55.6
unemployed	Dec.	1.9	1.4	1.4	3.8
Employed	Dec.	60.8	61.9	61.9	51.8
In Agriculture	Dec.	5.4	6.7	6.2	8.0
Non-Farm	Dec.	55.3	55.3	55.8	43.2
At Work	Dec.	59.1	60.2	59.8	43.8
Weekly Hours	Dec.	41.6	41.2	42.3	42.0
Man-Hours Weekly—b	Dec.	2.46	2.48	2.53	1.82
EMPLOYEES, Non-Farm—m (lb)	Nov.	49.2	49.6	49.3	37.5
Government	Nov.	6.7	6.7	6.7	4.8
Factory	Nov.	13.3	13.6	13.6	11.7
Weekly Hours	Nov.	39.9	40.3	41.1	40.4
Hourly Wage (cents)	Nov.	178.0	178.0	171.0	77.3
Weekly Wage ($)	Nov.	71.20	71.73	70.28	21.33
PRICES—Wholesale (lb2)	Jan. 19	110.9	110.9	109.9	66.9
Retail (cd)	Nov.	208.8	210.0	210.4	116.2
COST OF LIVING (lb2)	Nov.	115.0	115.4	114.3	65.9
Food	Nov.	112.0	113.6	115.0	64.9
Clothing	Nov.	105.5	105.5	105.2	59.5
Rent	Nov.	127.3	126.8	119.5	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Nov.	14.2	14.0	14.0	4.7
Durable Goods	Nov.	5.0	5.0	4.8	1.1
Non-Durable Goods	Nov.	9.2	9.0	9.2	3.6
Dep't Store Sales (mrb)	Nov.	0.85	0.83	0.83	0.34
Consumer Credit, End Mo. (rb)	Nov.	28.3	28.2	24.6	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Nov.	21.8	22.2	23.3	14.6
Durable Goods	Nov.	9.7	9.7	11.5	7.1
Non-Durable Goods	Nov.	12.1	12.5	11.7	7.5
Shipments—$b (cd)—Total**	Nov.	24.6	24.5	24.3	8.3
Durable Goods	Nov.	12.1	12.4	12.4	4.1
Non-Durable Goods	Nov.	12.5	12.6	11.9	4.2
BUSINESS INVENTORIES, End. Mo.**					
Total—$b (cd)	Nov.	78.5	79.0	74.7	28.6
Manufacturers'	Nov.	46.1	46.3	43.6	16.4
Wholesalers'	Nov.	10.6	10.7	10.2	4.1
Retailers'	Nov.	21.8	22.0	20.9	8.1
Dept. Store Stocks (mrb)	Nov.	2.5	2.5	2.4	1.1
BUSINESS ACTIVITY—1—pc	Jan. 16	191.3	192.1	193.6	141.8
(M. W. S.)—1—np	Jan. 16	236.8	236.0	233.9	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 577)

farm products and foods remained unchanged. Among industrial commodities, declines for nonferrous metals balanced increases for kerosene, fuel oil and cattle feed.

* * *

CONSTRUCTION CONTRACT AWARDS reached a new high in 1953, according to the F. W. Dodge Corporation figures for the 37 states east of the Rockies which totalled $17,443 million, or 4% above 1952 results. Heavy engineering awards had the biggest gain over 1952 with a 17% advance, nonresidential awards were up 4%, while residential contracts were down 3%. Some faltering in the rate of awards was noticeable in December as the total for that month—$1,300 million—fell 11% under December, 1952. The only category of contract awards to top year-ago figures in December, was heavy engineering with a 2% gain. Nonresidential contracts in December were down 24% to $540.3 million and residential awards of $433.5 million were 1% under the corresponding 1952 period.

* * *

New orders for **MACHINE TOOLS** rallied slightly in December from November's low levels and the National Machine Tool Builders Association reports that its index of such orders stood at 149.2% of the 1945-1947 average. This compares with 146.6% in November and the year's high of 327.0% reached in March. Shipments in December were still way above new orders and the index of shipments was at 303.1% of the base period rate. Output of machine tools in December was 387.3% of the 1945-1947 average and compares with the year's high of 412.2% in May, 1953. The excess of shipments over new orders has cut backlogs further and at current output rates it would take 5.8 months to complete unfilled orders on the books. This compares with 6.1 months in November and 9.8 months in December, 1952, at then current rates of production.

* * *

BUSINESS FAILURE in December hit 813 firms, which was a bit under the 815 failures of the previous month, Dun & Bradstreet has announced. The December casualties brought failures for the year to 8,812, a 16% gain over 1952 but under the past-war peak of 9,246 reached in 1949. **LIABILITIES** of failing firms rose to

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	Nov.	130	132	133	93
Mining	Nov.	113	114	118	87
Durable Goods Mfr.	Nov.	147	151	151	99
Non-Durable Goods Mfr.	Nov.	116	117	118	89
CARLOADINGS—t—Total	Jan. 16	620	624	705	933
Misc. Freight	Jan. 16	319	328	369	379
Mdse. L. C. L.	Jan. 16	60	57	66	1,566
Grain	Jan. 16	46	44	46	43
ELEC. POWER Output (Kw.H.) m	Jan. 16	9,014	8,825	8,121	3,266
SOFT COAL, Prod. (st) m	Jan. 16	8.2	8.1	9.6	10.8
Cumulative from Jan. 1	Jan. 16	16.8	8.6	21.2	44.6
Stocks, End Mo.	Nov.	82.4	82.7	76.0	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Jan. 16	6.3	6.3	6.5	4.1
Gasoline Stocks	Jan. 16	166	162	143	86
Fuel Oil Stocks	Jan. 16	49	50	48	94
Heating Oil Stocks	Jan. 16	100	93	89	55
LUMBER, Prod.—(bd. ft.) m	Jan. 16	224	208	245	632
Stocks, End Mo. (bd. ft.) b	Nov.	8.8	8.6	8.3	7.9
STEEL INGOT PROD. (st) m	Dec.	7.9	8.7	9.7	7.0
Cumulative from Jan. 1	Dec.	111.6	103.7	93.2	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Jan. 21	174	196	549	94
Cumulative from Jan. 1	Jan. 21	595	422	1,058	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Jan. 16	243	212	244	165
Cigarettes, Domestic Sales—b	Nov.	30	35	30	17
Do., Cigars—m	Nov.	533	589	498	543
Do., Manufactured Tobacco (lbs.)m	Nov.	15	19	15	28

PRESENT POSITION AND OUTLOOK

$43.8 million in December, up from $36.8 million the previous month and $23.4 million in the corresponding 1952 month. Liabilities for the year as a whole amounted to $394.2 million, highest in twenty years. However, if adjustment is made for the change in the size of our economy by relating liabilities to the Gross National Product, the resulting ratio for 1953 is a little under that existing in 1949 and only one-half the ratio of 1939.

* * *

Total outlays for **ADVERTISING** in 1953 reached a new high of $7,803 million, according to estimates prepared for Printers' Ink, industry periodical. This figure includes both national and local advertising and is a 9.1% gain over 1952. Television, with a 35.2% increase, had the biggest rate of gain of all major media, for the fifth year in a row. Expenditures on newspaper advertising advanced 7.4% and magazines were 7.2% ahead of 1952. Radio's gain over the prior year was 4.2% while farm publications brought up the rear with a 2.3% increase. Newspapers till garnered the biggest single share of all advertising, with 34.0% of total outlays going to this medium. Direct mail was next and accounted for 13.8% of all expenditures.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

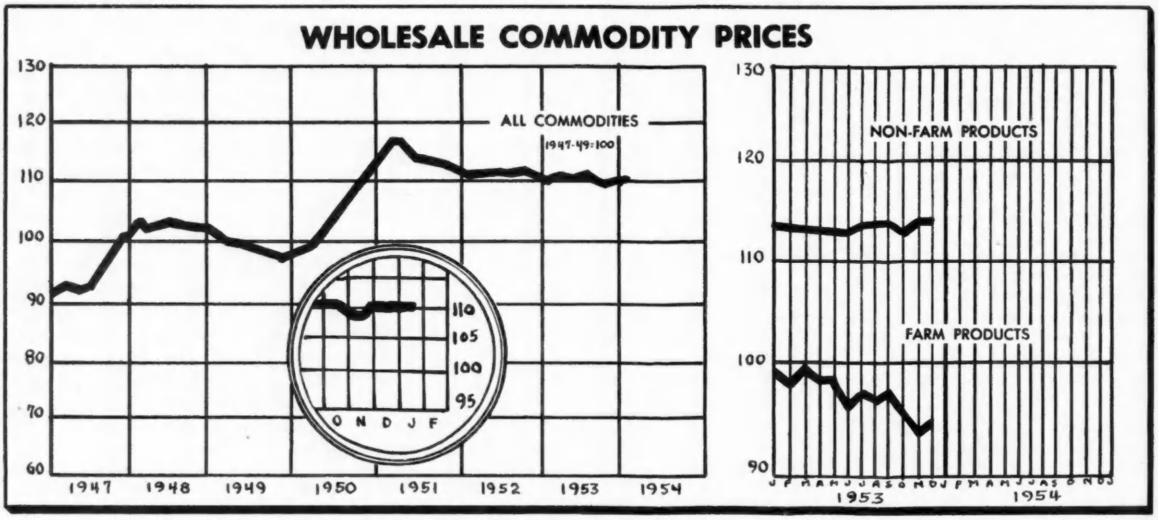
No. of Issues (1952 Cl.—100)	1953-'54 Range High	Low	1954 Jan. 15	1954 Jan. 22
300 COMBINED AVERAGE	215.5	177.2	196.9	199.8
4 Agricultural Implements	263.3	179.0	198.7	213.0
10 Aircraft ('27 Cl.—100)	441.2	330.3	412.6	441.2A
7 Airlines ('27 Cl.—100)	693.9	492.6	522.2	536.9
7 Amusements	95.5	76.4	92.8	91.1
10 Automobile Accessories	289.4	213.8	243.6	248.2
10 Automobiles	49.4	39.0	42.0	41.2
3 Baking ('26 Cl.—100)	28.0	23.0	23.7	23.9
3 Business Machines	377.4	311.4	369.3	372.8
2 Bus Lines ('26 Cl.—100)	240.8	170.2	240.8	236.1
6 Chemicals	396.9	337.9	376.7	376.7
3 Coal Mining	15.4	9.0	9.5	9.9
4 Communications	69.3	58.6	62.8	64.5
9 Construction	72.3	57.9	67.1	68.3
7 Containers	519.4	456.9	500.3	505.2
9 Copper & Brass	175.4	125.3	144.7	146.1
2 Dairy Products	105.1	82.3	104.1	102.0
5 Department Stores	63.2	54.6	57.3	57.9
5 Drug & Toilet Articles	246.9	203.8	244.5	246.9A
2 Finance Companies	410.8	341.8	398.8	410.8A
7 Food Brands	200.4	185.0	198.4	200.3
2 Food Stores	140.9	113.0	134.2	140.9A
3 Furnishings	79.2	59.6	68.0	68.0
4 Gold Mining	760.0	502.3	542.5	527.4

(Nov. 14, 1936, Cl.—100)	High	Low	1954 Jan. 15	1954 Jan. 22
100 HIGH PRICED STOCKS	133.5	114.4	126.6	128.4
100 LOW PRICED STOCKS	260.5	203.7	229.8	233.2
4 Investment Trusts	112.7	93.1	102.4	104.3
3 Liquor ('27 Cl.—100)	967.8	811.1	874.3	917.2
11 Machinery	240.6	181.0	214.1	218.2
3 Mail Order	128.6	101.0	115.6	116.6
3 Meat Packing	101.7	78.7	89.1	90.0
10 Metals, Miscellaneous	284.5	198.4	223.1	223.1
4 Paper	479.9	394.9	475.2	479.9A
24 Petroleum	463.4	376.5	428.2	436.3
22 Public Utilities	198.3	173.8	198.3	198.3
8 Radio & TV ('27 Cl.—100)	36.9	27.6	29.5	29.8
8 Railroad Equipment	64.1	49.1	54.3	54.3
20 Railroads	53.2	41.8	43.5	45.1
3 Realty	54.6	42.3	52.0	54.6A
3 Shipbuilding	316.1	228.7	307.3	316.1A
3 Soft Drinks	410.5	339.0	406.7	410.5A
11 Steel & Iron	151.4	122.8	137.7	140.3
3 Sugar	59.8	45.9	48.7	49.6
2 Sulphur	625.9	525.5	580.4	580.4
5 Textiles	162.2	101.3	102.3	105.4
3 Tires & Rubber	89.8	70.4	88.9	89.8A
5 Tobacco	105.2	82.0	83.7	84.5
2 Variety Stores	319.5	288.8	300.4	303.2
16 Unclassified ('49 Cl.—100)	125.7	97.0	109.3	109.3

A—New High for 1953-'54.

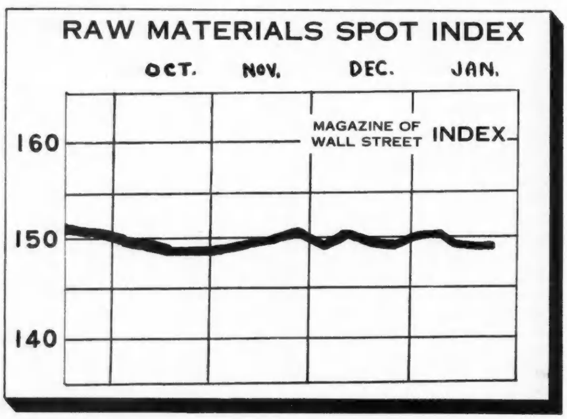
Trend of Commodities

Cross currents in the commodities futures markets were especially pronounced in the two weeks ending January 25 and rapid price changes were the rule rather than the exception. The Dow-Jones Commodity Futures Index stood at 169.82 as the period closed, down 0.99 points from the level of January 11 and 2.10 points under the recovery high reached on January 13. Wheat futures exhibited strength and the May option gained 3⅜ points in the two weeks ending January 25, to close at 213⅛. The situation here is one of dwindling free supplies as farmers place record amounts of the grain in the loan while the Commodity Credit Corporation holds some 440 million bushels outright. With the total wheat carryover on July 1, 1954 expected to approximate 800 million bushels, it looks as though the entire supply will be under government control unless prices rise enough to induce farmers to withdraw grain from the loan, or the Government decides to sell some wheat that may be in danger of spoilage. Corn prices have shown none of the strength of wheat and the May future lost 1 cent in the period under review to close at 155¼. Although farmers are availing themselves of the loan, the CCC owns a good deal of old corn from previous years and may find it advisable to dispose of this soon, a possibility that remains as a threat to the market. Coffee has been making the headlines of late, as wholesale and retail prices rise to new highs. This is the aftermath of the sharp run-up in futures which peaked in mid-January after gains running to 18 cents a pound, were achieved. The price rise reflects a shortage of available supplies but current high price levels seem to be affecting consumption and this could bring demand into line with supplies.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

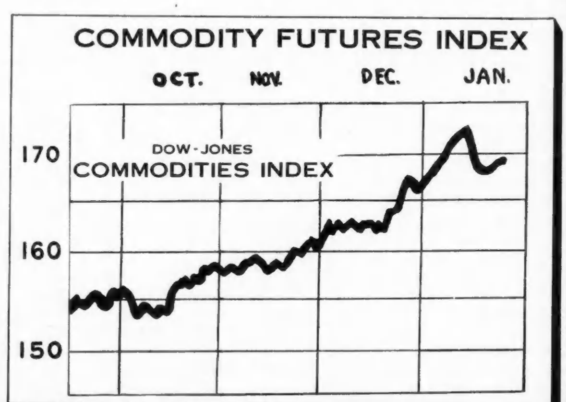
	Date Jan. 25	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	87.6	88.8	86.2	88.7	53.0
9 Foodstuffs	97.2	98.4	94.6	85.8	46.1
3 Raw Industrial	81.3	82.6	80.8	90.6	58.3
5 Metals	82.2	85.7	85.8	106.4	54.6
4 Textiles	88.3	87.5	87.6	88.9	56.3
4 Fats & Oils	71.3	71.5	67.7	57.8	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	162.2	181.2	215.4	111.7	88.9	67.9	57.7	86.6
Low	147.9	160.0	176.4	98.6	58.2	48.9	47.3	54.6



Average 1924-26 equals 100

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	170.1	192.5	214.5	95.8	74.3	78.3	65.8	93.[illegible]
Low	153.8	168.3	174.8	83.6	58.7	61.6	57.5	64.[illegible]

Keeping Abreast of Industrial and Company News

Mr. Fix-it, the householder who insists upon climbing the gable roof to adjust the TV antenna will lessen his chances of becoming a hospital case through slipping if he is shod with footwear with especially designed non-skid soles of duPont neoprene. Called Tri-Vac, these soles, according to **E. I. duPONT de NEMOURS & CO.**, offer safe, reliable protection against slipping on wet, icy, or oily surfaces. Originally developed for plane handlers working on the flight decks of Navy aircraft carriers, the soles are now appearing on shoes for civilian use in two trim styles that are said to be comfortable and easy to put on that duPont considers them to be desirable for lounging as well as for work and sport. Another style, designed for winter wear, are good looking cold-weather boots of water-repellent, oil-tanned leather, lined throughout with deep-pile shearling. These come in oxfords, chukka boots, and eight-inch hunting boots. Neoprene is duPont's chemical rubber out of which Tri-Vac soles are manufactured by several shoe companies. Another concern is producing Tri-Vac soles for men's neoprene rubbers, light in weight, unlined, and snug-fitting.

What is believed to be the world's largest and most powerful underground locomotive is now in use at the Mathies Coal Co. mine pulling probably the largest coal loads ever hauled by a single unit engine. Built by the Locomotive and Car equipment Department of **GENERAL ELECTRIC CO.**, the engine is capable of pulling 1,600 tons on level track, or 454 tons on a 2.2 per cent grade. Because of the grades in the mine, the unit normally will haul a string of about 32 cars having a total capacity of approximately 467 tons.

The U.S.S. Nautilus, recently launched at the Groton yard of the Electric Boat Division of **GENERAL DYNAMICS CORP.**, when ready for its trial runs will have an atomic power plant capable of developing sufficient horsepower to send the ship, while completely submerged, at speeds above 20 knots an hour. Whereas an ordinary submarine, operating on batteries while completely submerged, can travel at a comparatively slow rate and then only for a distance of less than 100 miles, when it must surface, the Nautilus will be able to move at full speed when submerged and if necessary cross the Atlantic without surfacing. Uranium 235—the heart of the first atomic bomb—will be the source of its fuel. The potential energy in a lump of uranium weighing about two pounds and about the size of a golf ball, is the equivalent of 460,000 gallons of fuel oil or 3,000 tons of coal, enough energy to enable the Nautilus to circle the globe without refueling. Built by **WESTINGHOUSE ELECTRIC CORP.**, this power plant will be the first ever to provide the motive power for any vehicle or vessel by controlled nuclear fission.

A new, lightweight air mat, weighing about two and one-half pounds, and made of tough, flexible Koroseal has been brought out by **B. F. GOODRICH CO.**, as an addition to its play pond line. Designed after the type used by the armed services, Goodrich considers the mat ideal for sunbathing, surf riding, camping, or even doubling as a spare mattress for the home. It is constructed of six tubes, divided into two separate air chambers which make for safety when the mat is used in surf or pool. Another feature claimed for it is its insulating qualities against cold and dampness from the ground when used by hunters or campers for sleeping. The mat, easily inflated by mouth, has electronically welded seams.

A new attachment designed by **INTERNATIONAL BUSINESS MACHINE CORP.**, for its type 407 punched card accounting machine is said to be capable of printing 9,000 three-line labels an hour. Based on punched cards, this high-speed method of writing labels is seen as especially advantageous to punched card users having volume mailings of newspapers, magazines, direct mail advertising, house organs or annual reports.

Recognizing that aluminum household foil has become a standard item in the kitchen and that one of its chief uses is for wrapping foods for storage in the refrigerator, the **HOTPOINT CO.**, Chicago, is distributing 1954 refrigerators with an aluminum foil dispenser built into the door. The company has proceeded on the theory that by having the foil dispenser so handy, the housewife will find it easier to tear off the desired length of foil and thus be encouraged to take full advantage of the protective value of foil wrapping. Foil, because it "conducts cold," speeds the cooling of food items, and being impervious to light and moisture, prevents dehydration of refrigerated food items. Hotpoint is shipping its 1954 refrigerator models with a roll of **REYNOLDS METAL CO.**'s aluminum foil inserted in the dispenser.

Another step in **COMMERCIAL SOLVENT CORP.**'s long term petrochemicals development program is seen in the company's announcement that it will build large scale facilities at Sterlington, La., for the production of nitroparaffins, a new family of petrochemicals never before available to industry in volume. In addition to this new construction, the company's existing nitroparaffins operations at Peoria, Ill., will be enlarged. The cost of the expansion, estimated at $5 million, will be financed from current funds, and full scale production is scheduled for sometime late in 1955.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Joy Manufacturing Company

"Please send me detailed report on Joy Manufacturing Company as to latest fiscal year earnings, dividends and also please report on progress the company is making in diversifying its business."

S. L., Evanston, Illinois

Net profit of Joy Manufacturing Company, manufacturer of mechanized mining equipment and other products, for the fiscal year ended Sept. 30, 1953 increased to $5,246,515, or $5.89 a share. Net for the preceding year was $4,818,973, or $5.41 a share.

Included in costs and expenses for the year were provisions for depreciation and amortization amounting to $1,022,524 for fiscal 1953 as compared with $736,479 for fiscal 1952.

Net sales for the latest fiscal year totalled $77,776,000, compared with $78,800,000 in the preceding year. Of this total, $11,811,000 represented export shipments, on which the company enjoyed a satisfactory profit, compared with $12,491,000 in 1952.

Foreign subsidiaries continued to show a satisfactory growth in sales volume and in earnings. Sales of products manufactured by subsidiaries in Canada and overseas, not consolidated with the parent company, totalled $10,954,000 for the year compared with $10,209,000 for the preceding year. When these sales are added to total sales of Joy, the global total of the company's sales for the year were $88,730,000 compared with $89,009,000 for the preceding year. Earnings of the foreign subsidiaries for the year, after deducting engineering fees paid to Joy, totalled $620,000. The earnings of the foreign subsidiaries are not included in the income of Joy until received in the form of dividends and no dividends were received during the past fiscal year.

The company has made good progress in diversifying its business. In 1949 76% of total domestic sales were made to the coal industry. In the year just completed, they comprised only 49% of domestic sales although sales to the coal industry were greater than in 1949. Domestic sales to other markets rose from 24% in 1949 to 51% of the total for the year ended September 30. It is a policy of the company to maintain its preeminent position in the mechanization of mining by the introduction of new machines and new techniques, while at the same time, extending its sales into other markets wherever possible. Machines originally designed for the mining of coal presently are being adapted to the mining of iron ore, limestone, potash, lead, salt, gypsum, zinc and other bedded deposits. During the last year the engineering department expended a total of $2,924,000 and a substantial portion of this amount was devoted to development of and experimentation with new products.

For the quarter ended Dec. 31, 1953 earnings were $1.40 per share against $1.27 for the corresponding period of 1952.

Dividends in 1953 including extra totalled $3.12½ a share, the same as paid in 1952.

Laclede Gas Company

"Please submit data on operating revenues of Laclede Gas Company, dividend rate and any new developments that might interest a prospective investor."

C. G., Memphis, Tennessee

Operating revenues of Laclede Gas Company for the fiscal year ended September 30, 1953 reached a new high of $32,567,000, a gain of 9% over 1952. After payment of all taxes, interest and other expenses, earnings on the common stock amounted to 98 cents per share, as compared with 92 cents per share in the preceding year.

Because of the company's improved condition, the annual dividend was increased on October 30, 1953 from 50 cents to 60 cents per share. The first quarterly dividend at the higher rate was paid on January 2, 1954.

The company's total sales are now 84% above and revenues are 57% above 1950, the first year after the company distributed straight natural gas.

In May 1953 the Federal Power Commission granted Laclede's natural gas supplier an increase in gas rates effective as of April 10, 1953. The full effect of this increase will not be felt until the 1954 fiscal year; it should then cost the company approximately $4,700,000 additional. To offset this higher cost, Laclede applied for higher rates to the Missouri Public Service Commission and the Commission did not grant the full increase requested but allowed the company to increase rates at an average of 8% effective June 7, 1953. This increase should produce about $2,800,000 in additional revenues in 1954.

Geological tests in the proposed underground gas storage area

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What to Do About 1953's Dividend Casuaties

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reflect a major downward trend in earnings which may eventually bring about further cuts, or even outright imission. Holdings in this group should also be carefully scrutinized to determine whether there is a risk of further deterioration.

Reduction or omissions of extras, year-end dividends, or special dividends, need not be too disturbing, though naturally investors are disappointed when their companies fail to make such added payments. Actually, extras and the equivalent are surplus payments, over and above regular rates and are based on an unusually high rate of earnings which may only be temporary. As long as the power to continue regular dividends remains unimpaired, however, which is the case with most of the companies which have reduced or eliminated special dividends in the past year, there is no urgent reason to liquidate holdings as long as the remaining dividend income is attractive. This should not be construed as a general endorsement of the group as, again, each case must be determined on the basis of individual circumstances.

We have arranged our ratings, in the table, according to the three categories mentioned, viz: companies which have cut or omitted extras only; companies which have reduced regular payments, and companies which omitted dividends entirely. These are marked A, B and C, respectively.

The symbol (1) indicates that the stock should be held on an income basis and for eventual market recovery. The symbol (2) indicates that while the current dividend rates is being covered, the margin is not entirely adequate and that the investor's position could be improved by replacing the issue with one of those marked A (1) or some other worthwhile issues of the type regularly described in the Magazine. The symbol (3) indicates that resumption of dividend payments is not anticipated for some time and that replacement of the stock would be warranted. The symbol (4) indicates that while dividend resumption is not in sight, possibility of an improvement in earn-

Future of Canadian Gold Stocks

(*Continued from page* 571)

producer which has been in partial operation since 1951 when activity at the property was resumed following suspension 20 years earlier.

In common with others in the Canadian gold mining industry, McIntyre felt the effects of higher costs in its fiscal year ended March 31, 1953. Consolidated operating profit, before taxes, fell from $1.6 million for the previous year to $1.3 million, to which was added $1.8 million in non-operating revenues and miscellaneous earnings, bringing total income, after taxes, to $2.3 million, equal to $3.02 a share for the capital stock. This compares with $3.21 a share reported for the preceding year. In all likelihood, considering that the company's miners were on strike from Sept. 22, 1953, to early January, 1954, net earnings for the year ending March 31, next, will make a poor comparison with those of last year and the year before. The company's strong finances and continued substantial investment income,

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Future of Canadian Gold Stocks

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ings this year suggests that the stock may be retained temporarily. however, protects dividends which should be maintained at the current rate. The company's shares merit retention for dividend yield and longer-term possibilities.

Pioneer Gold Mines, one of the smaller producers, had a production in the fiscal year ended March 31, 1953, of 44,887 ounces of gold. Aid by payment of $176,611 under the Emergency Gold Mining Assistance Act net income, after depletion charges, totaled $116,399, equal to seven cents a share on the 1,751,750 outstanding shares. Dividends which lapsed in 1943, were resumed by payment of 10 cents a share last summer. It is not likely that this action guarantees continuance of payments during the current year, considering the immediate outlook for the price of gold with operating costs remaining at present high levels. However, the company's interests in various mining properties in British Columbia and other territories, together with its holdings in an oil company owning several oil acreages in Western Canada, justifies retention of Pioneer shares on a purely speculative basis.

Wright Hargreaves in its report for the fiscal year ended August 31, 1953, clearly shows the difficulties of Canadian gold producers in realizing earnings of any appreciable amount from gold production. Although gross revenue from bullion of approximately 82,551 ounces of gold and 16,441 ounces of silver totaled $2.8 million, net earnings, with the aid of about $188,000 under the Emergency Assistance Act, before depletion, amounted to $650,253, equal to 12 cents a share. After payment of three-cents quarterly dividends, plus an extra of two cents, the company closed the year with a deficit of $119,747. It appears reasonable that some doubt should be generated as to maintenance of this rate of dividends through 1954, especially in view of the expanded activity in exploration of other properties. These include a 90% interest in a group of nine claims in the north-central Saskatchewan area, in the vicinity of which, diamond drilling penetrated a pitchblende-bearing deposit that is reported to be of impressive size and value. The company also has an interest in Anglo-American Exploration, Ltd., having controlling interests in several subsidiaries having extensive acreage holdings in producing and potential oil fields of Alberta, Saskatchewan, Manitoba, and Nova Scotia. During the 1953 fiscal year, Anglo-American Exploration acquired all the assets of Gas and Oil Products, Ltd., consisting of a modern oil refinery of 2,800 barrels daily capacity, a chain of 653 wholesale and retail gas filling stations, and 50 filling station sites along the Trans-Canada Highway. The acquisition puts Anglo-American Exploration in the category of an integrated oil company owning, producing, refining and selling petroleum products. While the stock is highly speculative and not suitable for the ordinary investor, it may some day attain a better position with successful development of its oil properties. As a gold producer, it lacks any attraction whatever.

Year-end Corporate Statements—and First Quarter Trends

(*Continued from page* 573)

The immense surge in deliveries of aircraft equipment to the military authorities is reflected in the Bendix Aviation statement showing an increase in sales for the fiscal year ended Sept. 30, 1953 of from $508.7 million to $638.5 million. Net income rose during this period from $15.2 million to $17.3 million. This was equivalent to an increase of from $7.22 a share in 1952 to $8.20 a share. The net profit ratio declined from 3% to 2.7%, reflecting the greater percentage of government business on which the profit margin is normally very low. For the fiscal year, sales were: 66% aircraft, 16% automotive and 18% sundry products. The government's program calling for continued high expenditures for aircraft offers a strong base for operations during the present fiscal year, though it is noted that unfilled orders declined last year from $720 million to $686 million. Total federal income and excess profits taxes amounted to almost $21 a share, of which at least $5 a share represented EPT. With the elimination of this tax, Bendix, assuming operations at the same level of 1953, should be able to turn in a net profit for the fiscal year ended Sept. 30, 1954 of around $13 a share. Since the bulk of the company's operations are in manufacture for defense needs, it is possible that this optimistic long-range estimate is not too far off.

York Corp. Though sales increased markedly, or from $60.5 million in 1952 to $87.1 million in 1953, net profits while increased, did not quite keep pace. This is reflected in the drop in net profit margin of from 4.0% in 1952 to

3.4 in 1953, largely as a result of excess profits tax liability. Earnings per share were $2.73, an advance from the $2.17 a share in 1952. This showing is the best since 1949 and was approximately double the amount earned in that year. The outlook for the air-conditioning industry is considered very substantial for the current year and should witness a sharp bulge in earnings during the second quarter, the best period of the year. Last year, the company earned $1.29 a share in that period, or almost half the full year's earnings. In line with general prospects for this industry, the company has made plans for expansion, for which provision will probably have to be made through the sale of new securities. Last year the liability of a $5 million 3% loan was incurred which is payable quarterly by the end of 1956. Though growth for this company has been slower than that for Carrier it seems that the company intends to expand much more rapidly in coming years than is indicated by previous years' records. The basis for such a program is indicated by the $25 million increase in new orders in the last fiscal year, ended Sept. 20, 1953 which brought the figure up to $89 million, and the $6 million increase in the backlog which stood at $30 million.

Effects of Dilution on Utility Shares

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interest credits, taken as a part of reported share earnings, might present some difficulties. If a new plant should not initially "pay off" when it goes into operation, the result might be a decline in earnings. Thus far, of course, there has been a ready demand for the output of practically all new electric utility plants so that no problems have arisen from this bookkeeping boost to earnings. There might come a time, however, when the demand for electricity might decline at a time when a new plant was going into operation. Earnings from the new plant might thus fall short of the previous interest credit so that total share earnings would decline.

Some of the "rapid growth" utilities in the south have issued common stock quite frequently in the postwar period, which may have had some restraining effect on earnings gains. Thus *Southern Company* earned $1.28 in 1949 but has been unable thus far to duplicate this showing (it may report about $1.25 for 1953). The company has issued huge amounts of common stock as follows:

(in millions of shares)

1.0* at $11.25 per share Oct. '50
1.0* at 11.375 per share April '51
1.0* at 12.75 per share June '52
1.5* at 11.95 per share Dec. '52
1.0* at 14.00 per share April '53

*—Approximate.

This year it is possible that the company may avoid equity financing, since the SEC has approved its application to borrow $15 million from the banks. Such permission had been withheld in previous years due to a policy of the Commission in discouraging holding companies from incurring debt. This temporary relief from continuing dilution may perhaps give the company an opportunity to show an increase in share earnings, and possibly to increase its 80c dividend rate—unless there are offsetting unfavorable factors such as a drought, etc.

Central & South West is another holding company which has enjoyed rapid growth, yet per share earnings showed little gain during the five years 1947-51, apparently due in part to frequent equity financing. With no such financing in 1952, the company was able to make a better showing, earnings reaching $1.60. If, as seems likely, equity financing can be "skipped" in 1954, this might favor another increase in earnings. The SEC in line with its new policy has permitted the holding company to borrow $12,750,000 from institutions on 3½% notes due December 31, 1955. This money, which carries with it a 52% tax saving, will cost the company only about 1.70% after taxes. Hence common stock earnings should benefit while the loan is outstanding.

A great proportion of the 130-odd independent operating companies emerged from holding company control during the 1940s, especially in the last three or four years when the dissolution of many large systems was completed. Many of these companies had very low equity ratios because they had been forced to

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Effects of Dilution on Utility Shares

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make heavy write-offs in "plant acquisitions" and "plant acquisition adjustments" (value in excess of original cost when first devoted to public service). These write-offs did not come out of senior capital at all, the common stock bearing the full impact. Fortunately for the operating companies, the holding companies in many cases were ordered by the SEC to contribute large cash sums in order to bring the equity ratios up to at least 25%. However, 25% is a minimum ratio by SEC standards and the average for all electric utilities is in the neighborhood of 37%. Thus these utilities, as a matter of policy, have attempted to raise their equity ratios in order to improve their bond ratings and facilitate senior financing. While this was largely accomplished by ploughing back earnings in some cases, it has also led to increased equity financing with resulting penalties on share earnings.

This point is also true for some of the holding companies, particularly *New England Electric System* and *New England Gas & Electric Association*. Both companies were permitted to have outstanding holding company debentures which they have had to reduce by sinking funds. This has put a burden on the common stock in addition to that imposed by continued new share offerings to help finance construction. This is perhaps one of the factors accounting for the relatively high yields returned by the common stocks of these holding companies. While the basic position of the common stocks has improved slowly but steadily, increase of share earnings may have been retarded by this "reverse leverage." It has also made for a more conservative dividend policy because of the cash required to meet sinking fund payments.

It seems probable that some of the utilities may be able to make a better showing when their huge construction programs begin to taper off, relieving them of the necessity of equity financing, and later when their plant amortization programs run out.

If there is a let-down in business, as is now feared in some quarters, the utilities might very well slow this program somewhat and spread the construction over a longer period of time, withholding additional orders from makers of generating equipment until the situation clarifies. This would reduce the amount of equity financing somewhat and relieve the pressure on share earnings. However, due to firm commitments for new generating units in 1954, new money financing must continue at quite a high level this year, after which the program might ease somewhat. At present the market seems favorable for the sale of common stock, but if the situation should reverse as it did a year ago, the present "easy" supply of bank funds may lead to greater use of bank borrowing.

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months provided nothing goes wrong with the other sectors of our economy.

In durable consumers' goods, the retail emphasis is increasingly upon the big names and widely nationally advertised brands. With productive capacity and potential supplies more than adequate to meet the demand, competition for the consumer's dollar is increasing rapidly. A number of the smaller manufacturers, who came along rapidly during the postwar years of shortages, are finding it more and more difficult to meet competition and maintain volume. Some casualties have occurred in this category and there may be more as the year progresses.

Speculative excesses, such as characterized practically all previous business booms, have been conspicuously absent in the postwar period. That eliminates the possibility of the bursting of a speculative bubble, a major contributing factor to down-spiraling in the past. Confidence in the Administration is strong. Lower taxes, more rapid amortization of capital expenditures, encouragement to residential construction, and numerous other measures "in the works" point to a vigorous Administration determination to check the business slide before it has gone very far. Summing it all up, there appears at this juncture to be no reason to anticipate more than a moderate business setback this year, with some likelihood that business will be on the mend long before the end of the year. But, that does not rule out the advisability of maintaining a cautious attitude.

For Profit & Income

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favor—(1) a good balance between crude oil output and refinery needs; and (2) a relatively heavy stake in production of synthetic nitrogen, the demand curve for which is strongly upward. Large new capacity in the latter field is nearing completion. Allowing for the latter, even if oil results are not up to 1953's, net should better 1953's esttimated $3.25 a share. Dividends are on a $2 basis. The stock is at 34, against prior high of 46¼ in 1952. With the best record in the movie industry, Loew's reached 41 in 1946, sagged to 10⅝ at its 1953 low and is currently at 14. Reflecting important operating adjustments, net was 22 cents a share in the 12 weeks ended November 26, against six cents a year ago, cash was up and inventory down. Current-year net should considerably better the 85 cents a share for the fiscal year ended last August 31, possibly permitting some boost in the 80-cent dividend.

A New Set-up for "Woolen"?

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of these two sums would be added the proceeds from the sale of the company's New York main office building for which negotiations are said to be now under way. In addition, management liberally estimates that on or before the redemption date, it will have income of about $3 million in excess of expenses, bringing the total to be available before March 15, 1954, to approximately $21.4 million.

Some opponents of the plan are of the opinion that management is "sticking its chin out" in estimating cash resources to carry out its stock redemption proposals. They doubt that the company will generate from earnings by next March the $3 million needed to make up the amount necessary to retire the two preferred issues. They also say that if the tax refund is not in hand in time and the New York real estate transaction is not concluded as expected retirement of the preferred stock could not be safely effected. Should these developments fail to come to pass it would then be impracticable for American Woolen to borrow from banks as planned by management, thus creating creditors in place of present stockholders.

Moreover, opponents say the proposed redemption of the preferred stocks would result in seriously hampering the company's operations, placing it in a vulnerable position because of lack of adequate liquidity. Those in opposition to the plan contend that the resultant tight cash position of the company would make it impossible to carry out the needed modernization of the retained northern plants which is considered necessary to permit them to operate more efficiently and which will continue to be materially affected by the differential in manufacturing costs between those plants and southern mills that have the advantage of lower taxes and wage scales. They point out that need for working capital is the more urgent in view of the plans for broadening output of fabrics based on the newer synthetic fibers. The company has already told its stockholders that under the competitive conditions now existing in the woolen and worsted industry, it cannot reasonably hope for profitable operation of its northern mil.s as presposition to the plan contend that the more urgent in view of ently constituted.

In view of all this, it is not difficult to see why the opposition to management contends that eliminating the preferred stocks at the expense of working capital is not going to prove a "cure-all" of the company's problems. This is where the matter stood prior to the stockholders' meeting on January 29.

As we go to press, announcement was made of issuance of a court order blocking action at the scheduled meeting. We will cover further developments in this situation in our next issue.

Pound Sterling at the Crossroads

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the drastic restrictions on imports, especially from the dollar area, and the tightened control over inflationary forces within individual countries of the sterling area have more than anything else contributed to the improvement in the balance of payments and to the hardening of sterling. Some of the countries have gone further than others. It is claimed that India, for instance, has carried her dis-inflationary measures so far that she was unable to absorb the sterling released to her under the Colombo Plan. Elsewhere, as in Australia, the improved demand for wool has already permitted some relaxation of import restrictions, although this was done only vis-avis the other sterling area countries.

But while Britain and some sterling area countries were on one hand restricting imports and clamping down on the creation of credit, on the other they were freeing their economies of controls imposed during the war or during the Socialist regime.

Development of Commonwealth Resources

In Great Britain in particular, "the march toward freedom" has been quite remarkable. The consumer has been nearly freed of rationing, now confined only to fats and British cheese. As for price controls, practically all have been dismantled except over bread, potatoes, milk, certain canned goods and sweets. Outside of the consumer sphere, only the prices of iron and steel products are controlled. Next, the British Government restored to private trade the buying and selling of all commodities except meat, bacon, certain canned goods, jute, sulphur, and certain ferro-alloys. Licensed importers are left free to buy without any specific import licenses the commodities freed to private trade. They are free to choose any source of supply, irrespective of the currency involved. This is, of course, true of necessities such as sugar or grains. Unessential imports, particularly from the dollar area, are banned, though licensing of certain dollar goods, such as machinery, is now being handled less stringently.

Returning to the Sydney Conference of the Commonwealth Finance Ministers, one may assume that the chief topic discussed was the development of sterling area resources. The expansion of food, raw material and industrial production not only offers to the sterling-using nations the opportunity to conserve dollars, but also the means by which the effects of a business recession in the United States, should one develop, could be combatted.

In general, the year 1953 was a successful year for the sterling area. Talk of breaking up the area, so common in 1952, died out almost completely. To begin with, there was general increase in productivity. The production of gold and uranium expanded. The demand for the sterling area's textile fibers, wool, jute, and sisal improved, and with it, the price level. The expansion of Rhodesian copper output permitted exports to the dollar area and led to reduced purchases of aluminum. Industrial production in Great Britain reached an all-time peak, and British steel mills once more caught up with domestic demand, thereby saving dollars spent the year before for imports of American steel. Higher prices of tea and cocoa also considerably increased the earnings of the sterling area producers.

One of the most promising developments of the year was the discovery of a major oil field in Western Australia. The Australians hope that this field, and possibly fields in Queensland and New Guinea where drilling is now going on, will make them eventually self-sufficient. Meanwhile, work is progressing at new oil refineries at Freemantle and Melbourne, Australia, Bombay, India, and Aden, Arabia. The latter is to make up in part for the loss of the Abadan refinery in Iran. The British and the Dutch oil interests now control petroleum production in excess of 800 million bbs., as against 500 million bbs. in 1947. However, the sterling area is still not self-sufficient, and some additional crude or refined must be purchased from U. S. companies. In addition to approaching self-sufficiency in oil, Britain is now able to produce most of the needed equipment. Half of the tonnage in British shipyards is accounted for by oil tankers; the orders placed with the British for oil industry equipment are reported to have aggregated nearly $300 million in 1952.

To become self-sufficient, the sterling area has still considerable ground to cover in bread grains, canned fruit, meat products, and tobacco. The demand for sugar and cotton must likewise be satisfied through purchases from the dollar area, but the amount is likely to grow smaller. Another weak point of the sterling area is timber, wood-pulp and newsprint. Here, however, a considerable saving of dollars was made in 1953 by switching the purchases to Scandinavia and Russia.

A year ago it was thought that shortage of capital might prove to be a limiting factor in the development of the sterling area's resources and, in fact, that the inability of Great Britain to provide the necessary capital wou'd eventually lead to the breaking up of the sterling area. To channel capital where it was most needed from the viewpoint of the sterling area's balance of payments difficulties, the leading Commonwealth financiers, such as Sir Frederick Godber of Shell Petroleum, Sir Geoffrey Heyworth of Lever Bros., Sir Robert Sinclair of Imperial Tobacco, and Sir Ernest Openheimer, head of gold and diamond mining syndicates in South Africa, organized the Commonwealth Finance Corporation, a part-private organization (The Bank of England subscribed a part of the capital) to "finance sound Commonwealth projects relevant to the balance of payments problem."

Not only did the shortage of capital not materialize, but London seems to have had in 1953 more capital available for investment than the sterling area wished to use. The problem in 1954 will be to find enterprises to use the capital. It is believed that the lack of demand for capital is only temporary, created largely by dis-inflationary measures and by the policy of making sterling scarce.

Sterling Area and U. S. Exporter

Generally speaking, the sterling area has survived the commodity crisis, and while the convertibility of the pound sterling depends basically on the attitude of the Eisenhower Administration to granting a convertibility credit, the pound sterling will probably grow stronger and freer gradually. Much will depend also upon the price level and the increased

output of gold and uranium—which is better than gold now—in South Africa. Since the sterling area is basically a system of discriminatory control, it would seem that a threat of a business recession in the United States would draw the individual members together.

How is all this likely to affect the American exporter? As will be seen from the second table, our exports to the sterling area averaged $2 billion in 1951 and 1952, but for most of 1953 were down to the $1.4 billion level. The biggest dip took place in our exports to Australia, New Zealand, India, and the United Kingdom. The least affected were our exports to Pakistan and South Africa. South Africa recently ended all discrimination against dollar goods imports and is a member of the sterling area in name only.

The fact that the Commonwealth Ministers favor the building up of gold and dollar reserves intimates that individual countries may be slow in liberalizing trade restrictions, which so far have been centered on the mutual trade of the sterling area countries. Much will depend on what commodity prices do, as well as what our policy is on synthetic rubber production. Normally, crude rubber accounts for a fifth of the sterling area's dollar earnings. A large and steady flow of U. S. capital into the under-developed countries of the sterling areas, such as India and Pakistan, could also lead to some liberalization of trade in the future.

Economic Adjustment Through Change in Price Levels

(*Continued from page* 550)

relatively small decline would uncover vigorous new demand, although it might not be as heavily distributed in durables lines as was 1953 demand.

Manufacturers' prices: will go down more sharply and more generally than retailers' prices, in order to ease the squeeze on distributors. A *relatively* sharp decline is foreshadowed by the prevailing business mood of retrenchment as far as inventory is concerned; that is, it may take a drop of about 6% in the general wholesale price level to get distributors willing to stop liquidating. Once liquidation stops, — perhaps as early as the end of the third quarter—pressure on prices of finished goods should about cease. A very slow decline, concentrated in hard goods, may continue for some time thereafter, until consumer markets can take up the slack left by declining defense demands.

Raw material prices: on average, are not likely to decline at all. Farm prices will be supported by increasing efforts at curtailing output, combined with present price support mechanisms. Nonferrous metals prices may fall somewhat between now and midyear (some of them declined slightly in January) but they should be strong in the last half (copper is a probable, and aluminum a possible, exception). Steel will evidently suffer from freight absorption in the first half if inventory liquidation continues, but mill quotations may well be strengthening by late in the year.

In summary, 1954 will be a year in which the margins of manufacturers will contract, as raw materials prices and wages hold firm while selling prices on finished goods decline. This contraction in the margin will be passed on to the consumer, and to the buyer of capital goods. The decline will be reflected in falling profits of manufacturers (where it is not substantially offset by an end of the excess profits tax), but a relatively mild price adjustment will disclose a new strength in the markets for finished goods, and prepare the way for reasonably stable activity, at reasonably stable prices, by year end.

Corporate Earnings and Dividends in 1954

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clusion is that the general rate of corporate profits during this year will be somewhat lower than in the preceding year but that, due to the offsetting factors enumerated above, the percentage of decline, on the average, should be smaller than that which might be indicated in the less satisfactory outlook for sales.

This is of great importance to investors as it involves the outlook for dividends. A clue may be had from an examination of data concerning total dividend payments in 1953. Although corporate profits after taxes in the third quarter of last year dropped, on an annual rate, by $1.2 billion to a total of $19.6 billion, dividend payments actually increased, on an annual rate, from $9.4 billion to $9.6 billion. Figures for the fourth quarter have not been published yet but it is probable that approximately the same ratio of dividends to net earnings has been maintained. This indicated a payout rate of 49% for the third quarter against 48% for the first half of 1953. In 1949, the payout rate was 45%. However, it was approximately 75% for the total of reporting corporations but for most corporations the rate was around 60%, which, in fact, in former years was roughly the traditional percentage of dividends paid to earnings.

It will be seen that shareholders, on the whole, in comparison with pre-war years, have not benefited proportionate to earnings so far as their dividends have been concerned. The question that investors are now asking themselves is whether a more liberal dividend policy on dividends can be adopted in face of prospects for a somewhat lower level of earnings. This is obviously contingent on working capital needs as well as earnings prospects. An analysis of available data indicates that while the rate of climb has been more or less the same for both current assets and liabilities, in line with the growth and expansion of industry and business, total working capital has increased gradually over recent years, and remains near a postwar peak. This is not necessarily a characteristic of the great majority of corporations but is fairly representative, nevertheless.

Under these conditions, it may be argued that the relatively moderate decline in prospect for net income should not have a great effect on the future rate of dividends on an over-all basis. This would be more particularly true of regular dividend rates than so-called extras which have become a feature of company dividend declarations in recent years but

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Corporate Earnings and Dividends in 1954

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which, as yet, have not been firmly established. In such cases, some modification could be expected in the amount of casual dividends so paid.

More concretely, it might be expected that the greatest rate of decline in dividends would appear (1) among the marginal companies; (2) those which have no benefit from the lapse of EPT and which are due for a decline in sales; and (3) those companies which are making belated efforts to improve their physical plant without sufficient current working capital resources.

Past policies on dividends may have an important effect on this year's prospects where such dividends, in individual cases, have been over-liberal and where the margin of profits has been contracting unduly. In such cases, it might be expected that dividend rates would be brought down to a more realistic relationship to actual earnings conditions. On the other hand, companies which have been pursuing relatively conservative dividend policies should, on the whole, be able to maintain these rates notwithstanding the approaching adjustment in business conditions.

Realistic Appraisal of the President's Program

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a tolerance, something roughly comparable to a bank's day of grace on a note due.

A notable absence in the Budget was any large recommendation for such public works as vast new public power projects, so beloved of the Roosevelt-Truman regime. For natural resources, about $1.1 billion is asked to cover many things. Although the St. Lawrence Project may not pass the House of Representatives, the Budget asks $105 million. In no event could much be spent in the next year but even that sum is a far cry from the magnificent public power projects earlier recommended.

What farm supports will cost no one yet knows but the Budget calls for a total of $12.5 billion for loans and guarantees to veterans, to small business ventures, rural electric cooperatives, farmers, home owners and so on. These sums are, for the most part, reimbursable although over long periods and at low rates. But the total is $3.8 billion below the commitments for the current year and, of course, it is certain that, under the former dispensation the item would have been far greater.

The Budget asks $4.5 billion for various public works, including aid for schools, highways, veterans hospitals and air fields. Of this, $1.2 billion is for expansion of atomic energy projects. The total compares with $4.9 billion for the current year. To be sure, Congress is working upon schemes to be put into effect if unemployment should call for a comprehensive program including a wide variety of work-making public works.

What has impressed many observers is that every effort was made to present a tight Budget, one fitted to tax imposts calculated to interfere least with the national economy in sharp contrast to the budgets of the last two decades which were based on the assumption that any lack could be made up by more taxes or unlimited borrowing. Many Members of Congress must have read the Budget in a curious mood as by far most of them have known nothing but years of the theory that high taxes, huge spending are right and proper. A handful of older Members doubtless remembered that, long aforetime, experience showed that lower taxes can mean increased revenue. It is conceivable that, under tax cuts, receipts can exceed present estimates.

The Economic Report

Following is a brief analysis of the President's Economic Report, presented to Congress January 28. In future issues, we shall comment on various phases of the President's recommendations and observations.

The President's Economic Report is distinguished, first, by its candid effort to analyze the causes of the present downturn in business, which is characterized as minor; and, second, by its bold forecast of an early return to conditions on a par with the peak of 1953. In accepting this interpretation of his economic advisers, however, the President allowed himself ample room for maneuvering by stating that if these optimistic forecasts were proved wrong by actual events, he would not hesitate to use the full force of the government to prevent any full-blown recessionary tendencies that might develop from turning into a depression.

The President emphasized that "more than 5 billion dollars of tax savings are now being left with the American people to increase their purchasing power this year." This viewpoint is in line with the general philosophy of the Administration that the soundest foundation for the economy is maintenance of a high level of consumer expenditures for the purpose of lifting living standards. To accomplish this end, in addition to the tax cuts mentioned, the President advocates the broadening of the base of old age and survivors insurance; increasing the flexibility of terms governing loans and mortgages insured by the government; improving credit facilities for home building modernization and urban renewal, and similar measures. Some of these were already broadly outlined in previous messages.

Referring to the prospective comparatively small decline in federal expenditures, the President estimated that this could be counteracted by a rise in State and local expenditures. The latter have been increasing at the annual rate of $2 billion a year but such increase would not be sufficient to provide for the enormous backlog of building of the many types required. This would require special financial measures by public bodies.

Aside from the measures enumerated and others incorporated into previous messages, it would seem that the absence of any dramatic proposals to stimulate business activity in the near future is predicated on the belief that such action is not needed and that moderate relief in the area of taxation, especially, is deemed sufficient for the purpose. In any event, it is significant that special measures for relief which would obligate the federal government to additional expenditures will not be forthcoming. This is logical in view of the serious efforts of the Administration to hold the budgetary deficit down as far as possible.

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Realistic Appraisal of the President's Program

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On the other hand, the President has stated that the Administration would not hesitate to take much stronger action should a business slump actually threaten. He alludes to the formidable powers which the government possesses to prevent such an occurrence. Among these are: federal control of credit; debt management techniques, lowering of taxes and large-scale public works. Implicit in the statement is that the government would not wait but move speedily if such action were needed. This would seem to answer the doubt of many critics that the Administration would not move fast enough if conditions demanded drastic action. However, since no emergency is envisaged, there would be no particular point in laying out a specific program of relief at this time.

On the question of public works, some figures cited in the President's report are particularly interesting. He alludes to the feasibility of stepping up a federal projects program by 50%, with state and other public spending for such purposes expanded by a similar amount. This could bring 1955 expenditures up to approximately $16 billion for total public works as against $11.2 billion in 1953.

Perhaps the most important feature of the President's review and forecast is the revelation of a highly flexible attitude expressed in terms of acting under short rather than long-term considerations. This indicates a high degree of awareness of the need for rapid shifting on the economic front should circumstances dictate. For that reason, the President's proposals should be regarded as preliminary to a possibly more far-reaching program next year and which, in effect, are laying the ground work for the long over-due financial reconstruction of the federal government.

Answers to Inquiries

(*Continued from page* 582)

north of St. Louis have progressed satisfactorily. If final tests confirm the findings to date, Laclede will begin construction work promptly on storage facilities which should enable them to serve approximately 50,000 additional househeating customers.

During the test drilling, a showing of oil was found. The company has completed two oil wells and will drill others where geological exploration indicates commercial possibilities. However, findings thus far indicate that this will not be an important oil field.

Book value per common share as of September 30, 1953 was $8.94.

The territory served by the company in St. Louis is expected to show a further satisfactory demand for natural gas.

Automatic Canteen Company of America

"As the vending field is expanding, I would be interested in receiving recent data on Automatic Canteen Company of America with earnings, sales volume and working capital position."

S. W., Englewood, New Jersey

Consolidated merchandise sales of Automatic Canteen Company of America and its wholly-owned subsidiaries for the fiscal year ended October 3, 1953, rose to $46,696,122 compared to $38,705,211 for the previous year, an increase of $7,990,911 or 21%.

Consolidated net earnings for the fiscal year were $771,249 compared with $786,267 for 1952, a decrease of $15,019. Large expenses incurred in research and development of canteens to handle additional products, high sales and promotional expenses in further developing territories and increased expenses of placing canteens in more productive locations contributed substantially to the small decrease in earnings indicated.

These increased expenses, plus the cost of converting canteens to handle the sale of 10 cent merchandise, resulted in a decrease in net profit before taxes of $125,019. Therefore, net earnings per share of common stock based on the number of shares outstanding at the end of the year were equivalent to $1.60 compared with $1.65 a share outstanding at the close of the 1952 fiscal year.

Consolidated gross revenues of the company for the 1953 year were $48,769,182 compared with $40,539,047 a year before.

Consolidated working capital of the company at the end of the year was $1,269,019 compared with $1,732,971 in the previous year. During the past fiscal year, the company invested $2,569,76 in new canteens and miscella neous equipment and also ac quired additional canteens unde lease agreements.

Current quarterly dividend ra is 25 cents per share.

Cherry-Burrell Corporation

"Please advise on principal nature Cherry-Burrell Corporation's busin and give recent fiscal earnings and a interesting new development."

M. I., Ashton, Maryla

Net income of Cherry-Burr Corporation, manufacturers a distributors of dairy, food a beverage, processing equipme and supplies, for the fiscal ye ended October 31, 1953 amount to $663,550 or $1.03 a share 457,235 shares of common sto outstanding at the year-end, co pared with $663,185 and 93 cen a share on the 457,185 comm shares outstanding a year p vious.

Net sales for the fiscal year $34,294,271 compared with $3 645,332 in 1952, an increase 8.4%, making 1953 sales the s ond highest in the company's h tory. The backlog of unfill orders for manufactured pr ucts at fiscal year-end was t and one half times as large as year earlier and orders receiv since that date have been runni at a rate 14% higher than a ye ago.

Among the most significa changes that took place during t fiscal year were an importa growth in the company's progra of extending equipment sales the beverage, brewing and p cessed food industries. The quisition of the Heil bevera bottle washer line in August 19 gives this project added impet

The company expects increas sales of dairy equipment and su plies to the dairy industry in 19 unless there is severe unempl ment, consumption of fluid m and other dairy products is pected to increase. The compa presently has unfilled orders three of its complete continu butter-making plants, and sa forecasts indicate an increase equipment sales for 1954.

Another important devel ment was the inception of a p gram to combine the compan 16 sales branches into 5 sales d tricts. This should reduce cost distributing products.

Dividends of 60 cents a sh were paid in 1953, the same as 1952.

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